November
2008

Report of the Auditor General to the Nova Scotia House of Assembly

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To serve the people of Nova Scotia and the House of Assembly by making a significant contribution to enhanced public sector accountability and performance.

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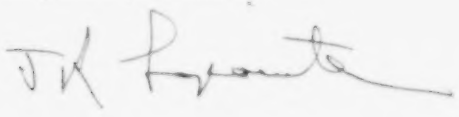
Honourable Alfie MacLeod
Speaker
House of Assembly
Province of Nova Scotia

Dear Sir:

I have the honour to submit herewith my Report to the House of Assembly under Section 9A(1) of the Auditor General Act, to be laid before the House in accordance with Section 9A(2) of the Auditor General Act.

Respectfully submitted



JACQUES R. LAPOINTE, BA, CA • CIA
Auditor General

Halifax, Nova Scotia
November 6, 2008

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Introduction

1 Message from the Auditor General

Introduction

1.1 I am pleased to present my November 2008 Report to the House of Assembly on work completed by my Office in the summer and fall of 2008.

1.2 In addition to this Report, I have also submitted the following in the past year.

- My Report to the House of Assembly on work completed by my Office during the second half of 2007 and January 2008, dated February 6, 2008, was tabled on February 27, 2008.
- My Report on the Estimates of Revenue for the fiscal year ending March 31, 2009, dated April 28, 2008, was included with the Budget Address tabled by the Minister of Finance on April 29, 2008.
- My Special Report to the House of Assembly on Phase 1 of the Economic Stream of the Nova Scotia Nominee Program, dated June 5, 2008, was tabled on June 11, 2008.
- My Business Plan for 2008-09 was provided to the Public Accounts Committee on June 16, 2008.
- My Report on the Province's March 31, 2008 consolidated financial statements, dated June 30, 2008, was tabled with the Public Accounts by the Minister of Finance on August 5, 2008.
- My Report on Performance for 2007-08 was provided to the Public Accounts Committee on August 29, 2008.
- My Special Report to the House of Assembly on Phase 2 of the Economic Stream of the Nova Scotia Nominee Program, dated September 25, 2008, was tabled on October 1, 2008.

1.3 As the Province's Auditor General, my goal is to work towards better government for the people of Nova Scotia. As an independent, non-partisan officer of the House, I and my Office help to hold the government to account for its management of public funds and contribute to a well-performing public sector. I consider the needs of the public and the House, as well as the realities facing management, in providing sound, practical recommendations to improve the management of public sector programs.

1.4 My priorities, during my term of office, are: to focus audit efforts on areas of high risk that impact on the lives of Nova Scotians; to contribute to a more

efficient, effective, and better performing public service for Nova Scotia; and to foster better financial and performance reporting to the Legislature and the people; all while promoting excellence and a professional and supportive workplace at the Office of the Auditor General. This Report reflects this service approach.

1.5 I wish to acknowledge the valuable efforts of my staff who deserve the credit for the work reported here. As well, I wish to acknowledge the cooperation and courtesy we received from staff in departments and agencies during the course of our work.

Who We Are and What We Do

1.6 The Auditor General is an officer of the Legislature, appointed by the House of Assembly for a ten-year term. He or she is responsible to the House and to the people of Nova Scotia for providing independent and objective assessments of the operations of government, the use of public funds and the integrity of financial and performance reports.

1.7 The Auditor General's mandate, responsibilities and powers are established by the Auditor General Act. The Act provides the Auditor General with the authority to require the provision of any documents required by the Auditor General in the performance of his or her duties. The Auditor General Act requires all public servants to provide the Auditor General free access to any and all information and explanations which he or she requires.

1.8 The Auditor General Act stipulates that the Auditor General shall provide an annual report and opinion on the government's financial statements; provide an opinion on the revenue estimates in the government's annual budget address; examine the management, use and control of public funds; and report to the House at least once, and up to three times annually, on the work of the Office.

1.9 The Office has a mandate under the Act to audit all parts of the Provincial public sector including government departments and all agencies, boards, commissions or other bodies responsible to the crown, such as regional school boards and district health authorities, as well as transfer payment recipients external to the provincial public sector.

1.10 In its work, the Office of the Auditor General is guided by, and complies with, the professional standards established by the Canadian Institute of Chartered Accountants, otherwise known as Generally Accepted Auditing Standards (GAAS). We also seek guidance from other professional bodies and audit-related best practices in other jurisdictions.

1.11 This Report presents the results of audits and reviews completed in the summer and fall of 2008 at a number of departments and agencies and comments on government financial reporting. Where appropriate, we make recommendations for improvements to government operations, processes and controls. Department or agency responses have been included in the appropriate chapter. We will follow up on the implementation of our recommendations in two years, with the expectation that significant progress will be made.

Significant Issues and Common Themes

1.12 In conducting our audits, we sometimes identify issues that may have broader applicability beyond the particular entities in which the issues emerged.

1.13 This year we found that deficiencies in internal controls, including financial controls, and in information and information technology systems were an issue in every audit we conducted and, furthermore, that they were pervasive in our review of other auditors' opinions and management letters across the government entity.

1.14 Any particular control or system deficiency might or might not be significant. However, the breadth and the totality of these deficiencies is a cause for concern. Further, our findings indicate an overall lack of action in dealing with these deficiencies, allowing them to continue over several years. Poor financial and technology controls unnecessarily increase the risk of fraud, error and financial loss. Unreliable and inaccurate information and information technology interfere with management's ability to manage programs, to make sound decisions and to allocate scarce resources, increasing the risk of both financial losses and of program failures.

Chapter Highlights

1.15 This Report presents our findings, conclusions and recommendations resulting from audits in the following areas.

Government-Wide

Chapter 2 – Payments to Vendors

1.16 We examined controls over payments to vendors totalling $6.6 billion annually. We found controls are not adequate to ensure transactions are complete, accurate and authorized. We found deficiencies in a number of

transactions and processes tested. This result is consistent with the findings of an audit of technology controls conducted by a public accounting firm that resulted in a qualified opinion and the identification of several control deficiencies.

Chapter 3 – Internal Audit

1.17 Our review of the internal audit function across government concluded that government overall is inadequately served by internal audit. With two minor exceptions, internal audit is non-existent in the broader public sector, (e.g. agencies, boards and commissions) including school boards and health authorities that together spend $2.1 billion annually. Internal audit service to core government departments does not meet critical international professional standards, particularly in conducting a risk-based assessment of government's audit needs. Government has failed to respond to our Report and would not indicate whether they agree with our findings or would act on our recommendations.

Health

Chapter 4 – Home Care

1.18 Our audit of the home care program found significant deficiencies, many of which date back to previous audits we conducted in 1996 and 2002. Areas of deficiencies include client assessments, ensuring appropriate services are delivered to clients, complaint investigation and performance tracking. The Department of Health's lack of action in addressing deficiencies in this program is a concern to us. The Department is planning to devolve the program to district health authorities and we feel this should not occur until the Department has a plan of action to address all the deficiencies in the program.

Labour and Workforce Development

Chapter 5 – Pension Regulation

1.19 We audited the work of the Pension Regulation Division in administering and enforcing the Pension Benefits Act and Regulations. We found that the Division's processes and procedures are not adequate to protect pensioners' entitlements to benefits under the numerous pension plans covered by this Act. The Division does not review pension plan investment policies to ensure funds are invested prudently and in accordance with legislation. It does not verify that plans have formally documented investment policies and that they are reviewed annually. It does not verify annual information submitted by plan administrators.

Nova Scotia Utility and Review Board

Chapter 6 – Public Passenger Vehicle Safety

1.20 We found that the Nova Scotia Utility and Review Board's public passenger safety program is not sufficient to ensure adequate maintenance of public passenger fleets, thus increasing the risk to passenger safety. Over 60% of vehicles inspected by the Board had deficiencies requiring immediate correction, many potentially of a serious nature. We also found that enforcement processes are inadequate to ensure compliance with motor vehicle safety legislation.

Finance

Chapter 7 – Government Financial Reporting

1.21 The 2008-09 revenue estimates were tabled with the budget on April 29, 2008. My opinion on those estimates again contained a reservation of opinion related to a scope limitation and non-compliance with Canadian generally accepted accounting principles, with respect to the exclusion of certain revenues from governmental units including school boards and district health authorities. The Province's audited consolidated financial statements were tabled on August 5, 2008. My opinion on those statements was unqualified. We have reiterated our concern that the process to approve additional appropriations reduces accountability to and control by the House of Assembly. Finally, we have made a number of recommendations to improve financial controls. In particular, we have made a recommendation every year since 2003 on the need to document internal controls and related roles and responsibilities. We are concerned by the lack of action taken on this issue.

Chapter 8 – Review of Financial Statements and Management Letters

1.22 We review the annual audit opinions and related management letters for all provincial government entities audited primarily by external private sector auditors. We noted that the opinion on the financial statements for one of the Province's loan fund boards was qualified due to insufficient support in the financial records. Our review of management letters found that internal control and information technology weaknesses continue to be pervasive throughout the government reporting entity, with little being done to correct known deficiencies.

Performance Audits

2 Government-Wide: Payments to Vendors

Summary

It is very important that government organizations have a strong system of internal control to protect public funds, as well as the public interest, through the continued and effective operation of important government programs. In July 2008 we completed a government-wide internal controls audit addressing the processes surrounding payments to vendors. The Nova Scotia Government made payments to vendors totaling $6.6 billion in 2007-08. The objective of this audit was to assess whether controls over payments to vendors are adequate to ensure all transactions are complete, accurate, authorized and provide an adequate management trail.

We concluded that key controls did not operate effectively throughout the year to ensure all payments and related accounting records are complete, accurate, authorized and provide adequate linkages to other relevant accounting documents or records.

We encountered numerous instances where controls did not operate effectively throughout the year. Payment transactions were not always authorized, supported by invoices or other documentation, coded with posting information, and checked for mathematical accuracy. We found no evidence of critical reconciliations occurring in two instances. We found significant numbers of government staff had access to incompatible functions of the government's accounting systems. We also noted that the annual service audit conducted by a public accounting firm on certain of government's general information technology controls resulted in a qualified opinion and the identification of several control deficiencies.

We found that the Government has not adequately documented and assessed its own control systems. Further, there is insufficient communication of the general responsibility of senior management in departments and agencies for controlling their own systems and transactions.

Control deficiencies such as those found by this audit pose a significant risk to the Government of Nova Scotia. They can present opportunities for fraudulent transactions and allow errors to occur and remain undetected. A lack of control system documentation and assessment can lead to an incomplete understanding of critical government systems, as well as a false sense of security about the adequacy of control in government.

2 Government-Wide: Payments to Vendors

Background

2.1 The Committee of Sponsoring Organizations (COSO) – an organization of professional associations dedicated to providing guidance on organizational governance, business ethics, internal control, enterprise risk management, fraud and financial reporting – defines internal control as:

> *"...a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:*
>
> - *effectiveness and efficiency of operations*
> - *reliability of financial reporting*
> - *compliance with applicable laws and Regulations."*

2.2 One of the key components of an internal control framework is control activities. As defined by COSO:

> *"...these are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties."*

2.3 A strong system of internal control is crucial to any organization to protect the integrity of the organization, as well as the financial and other interests of its stakeholders (e.g., shareholders, customers, suppliers, and the public). Internal control is important to government organizations as a means of protecting public funds, as well as the public interest through the continued and effective operation of important government programs.

2.4 In the Nova Scotia Government, systems having government-wide application are managed centrally, with delegation of certain operational functions to the departments. An example is the government's corporate financial management system which is managed centrally by the Department of Finance through its Government Accounting Division for accounting and reporting purposes, as well as by its SAP Customer Competency Centre for purposes of system management and control. Many other government

systems are specific to individual departments and are managed by the departments or their Corporate Service Units (CSU's).

2.5 In the accounting practices of the Nova Scotia Government, the term "*vendor*" means more than traditional commercial vendors such as companies which sell office supplies and provide telecommunications services. It also includes other receivers of payments such as grant recipients and government employees who have submitted an expense claim.

GOVERNMENT-WIDE PAYMENTS TO VENDORS

2.6 For the year ended March 31, 2008, the Province's Consolidated Fund recorded expenditures totaling approximately $8.1 billion. Of this amount, $6.3 billion was paid to vendors, as follows:

- Operating goods and services - $539 million
- Professional services - $191 million
- Grants and subsidies - $5,543 million

2.7 The remainder is comprised of payments for salaries and debt servicing, and journal entries for amortization. Payments for capital assets, which are not classified as expenses under generally accepted accounting principles, totaled approximately $315 million.

2.8 Regardless of their type, vendor payments originate and are authorized within the various government departments and agencies. The process of checking and recording payment transactions is the responsibility of government's Corporate Service Units. There are eight CSU's in the Government of Nova Scotia, each serving one or more client departments and other government entities.

2.9 There are two forms of payment used by the Province. Many vendors receive payment in the traditional manner – by way of cheque. There is also an option for approved vendors to be paid by electronic funds transfers, whereby the Province transfers money electronically from its bank account to a vendor's bank account. Approximately 12.5% of total dollars paid in 2007-08 were remitted by cheque, while 87.5% were remitted by way of electronic funds transfer.

Scope and Approach

2.10 In July 2008 we completed a government-wide internal controls audit addressing the processes surrounding payments to vendors. The period covered by the audit was April 1, 2007 to March 31, 2008. The audit was performed in accordance with Section 8 of the Auditor General Act and auditing standards established by the Canadian Institute of Chartered Accountants.

2.11 The objective of this audit was to assess whether controls over payments to vendors are adequate to ensure all transactions are complete, accurate, authorized and provide an adequate management trail.

2.12 Our approach included obtaining and documenting a detailed description of vendor payment processes, and performing detailed testing of transactions to determine if adequate controls were in place and operating effectively throughout the period under audit. We focused on payments made by core government departments and agencies, thereby excluding entities such as district health authorities, regional school boards and crown corporations. We examined payments relating to the purchase of operating goods and services, procurement of professional services, and issuing of grants and subsidies. We included payments for capital assets in our testing as these would appropriately be considered payments to vendors.

2.13 We also reviewed the results of the annual independent service audit of government's SAP Customer Competency Centre for the year ended March 31, 2008. This audit is conducted by a private sector firm and results in an opinion on the adequacy of general controls over certain of the government's computer operations, including those which process payments to vendors. We considered the results of this audit in arriving at our overall assessment of internal controls relating to payments to vendors.

Significant Audit Observations

2.14 *Conclusions and summary of observations* – Our audit sought to assess the adequacy of control over payments to vendors. We concluded that key controls did not operate effectively throughout the year to ensure all payments and related accounting records were complete, accurate, authorized and provide adequate linkages to other relevant accounting documents or records.

2.15 We encountered numerous instances where controls did not operate effectively throughout the year. Payment transactions were not always authorized, supported by invoices or other documentation, coded with posting information, and checked for mathematical accuracy. We found no evidence of critical reconciliations occurring in a couple of cases. We noted that the annual service audit conducted by a public accounting firm on certain general information technology controls of government resulted in a qualified opinion and the identification of several control deficiencies.

2.16 We also found inadequate segregation of incompatible accounting responsibilities. This is due to significant numbers of government staff with conflicting combinations of access privileges to government financial accounting systems.

2.17 The Government of Nova Scotia has experienced cases of fraud in the past; some of which were due to inadequate segregation of incompatible accounting responsibilities. Past reporting by our Office has highlighted internal control deficiencies in specific entities and across government. The prevalence and types of control weaknesses found by this audit, and the significant funds flowing through payments to vendors indicates that government needs to be very concerned about its state of internal control and address the matter in a prompt and thorough manner.

Segregation of Duties

2.18 A basic premise of internal control is that no employee should have responsibility for performing two or more of the following incompatible activities:

- authorization of transaction
- custody of assets
- recordkeeping
- reconciliation of accounting records to assets

2.19 Assigning incompatible responsibilities has a negative impact on systems of internal control and subjects the organization to higher risks of fraudulent activities. Accordingly, management must exercise care in assigning job responsibilities to employees.

2.20 In the modern age, segregation of duties is primarily established by which features of computer systems employees are permitted to use. In some instances, employees may be assigned access privileges which enable them to perform functions incompatible with their other responsibilities.

2.21 We performed an analysis of system access privileges related to vendor payment processes, looking for instances where incompatible access privileges have been assigned. We identified the following.

- 114 government employees have system access privileges enabling them to enter invoices for payments and process receipt of goods. This could allow them to approve an invoice for payment when the goods received were deficient, or even non-existent.
- 13 government employees can create or change vendor master records and initiate cheque or electronic payments. This could enable fictitious vendors to be set up in order to misappropriate government funds.

2.22 These findings are similar to those from our 2006 audit that examined application controls relating to the government's financial management

systems. We are concerned that, two years later, our recommendations to address these segregation of duties issues have not been completely addressed.

Recommendation 2.1
The identified instances of incompatible access privileges should be investigated to determine if all or some are necessary. If they are necessary, compensating controls should be put in place to mitigate the higher risk these situations cause.

2.23 Internal control systems should be monitored by management, assisted by processes that assess the adequacy of controls on a regular basis. We found there were no processes to periodically ensure only compatible computer access privileges have been assigned to individual employees.

Recommendation 2.2
The government's SAP Customer Competency Centre should perform periodic analysis to identify where incompatible system access privileges have been assigned to government employees so that these situations can be reviewed for necessity, and compensating controls implemented where appropriate.

Testing of Vendor Payment Transactions

2.24 The primary focus of this audit was to document the processes and controls relative to payments to vendors, identify the key controls, and perform detailed testing of transactions to ensure that key controls existed and operated effectively throughout the audit period. In performing this work we visited each of the eight Corporate Service Units (CSU's), as well as the Government Accounting Division of the Department of Finance.

2.25 We encountered numerous transactions in all CSU's which were not subjected to all of the controls that had been described to us during the systems documentation phase of the audit. We examined 163 transactions and noted the following control deficiencies.

2.26 *Payment authorization* – Only certain employees in departments can authorize payments. Departments are required to provide CSU's with listings of employees who are permitted to perform this function, and are responsible to promptly update the listings as changes occur. The CSU's are required to use these listings to ensure all payment requests submitted by departments are properly approved. We found:

- one payment was processed without any evidence of departmental approval; and
- two payments were processed with approvals by employees who were not on the approved signing authority lists.

2.27 In these instances, there is a risk that unauthorized or fraudulent transactions could occur.

Recommendation 2.3
CSU's should not process payments without evidence of proper departmental approval.

2.28 *Mathematical accuracy* – We found six vendor invoices that contained mathematical errors which were not detected by CSU staff.

2.29 Our concern with these errors was that they indicated that invoices at risk for mathematical errors were not always being checked for accuracy. Failure to check such invoices for mathematical accuracy can result in the loss of funds through excessive payments.

Recommendation 2.4
CSU's should verify the mathematical accuracy of documents supporting payments if there is a risk of errors occurring in the documentation. CSU employees should provide evidence of this process by signing or initialing the documents checked.

2.30 *Posting information* – Prior to being submitted to a CSU, invoices or other supporting documents are stamped to provide a place to record posting information such as cost centre, account and vendor numbers. This information helps ensure that payment transactions are properly recorded in the accounting records and the intended vendors are paid. We identified:

- 15 documents which were not coded with a cost centre number;
- 13 documents which were not coded with an account number; and
- 3 documents which were not coded with a vendor number.

2.31 If cost centre, account and vendor numbers are not coded by departmental employees on an invoice being submitted to a CSU for payment, there is no guarantee that CSU employees will know the proper account in which to record the payment, or even the proper vendor to be paid.

Recommendation 2.5
Payments should not be processed by CSU's without all required posting and payment information being recorded by departments on the supporting documentation.

2.32 *Monitoring and verification* – There are reports that can be produced by the government's corporate financial system that enable CSU staff to check the accuracy and completeness of payment processing. Although there is

no formal requirement for CSU's to perform this detailed checking, we determined that some CSU's use the reports extensively on a daily basis, while others use it less frequently or not at all. Failure to check payment transactions could result in errors or fraudulent transactions being recorded and not subsequently detected.

Recommendation 2.6
Payment transactions should be checked by CSU's to ensure they were processed and posted correctly.

2.33 *Supporting documentation* – All payment transactions should be supported by appropriate documentation to explain and support the purpose of the payment. Examples of supporting documentation include:

- for office supplies – invoices and evidence of goods received;
- for travel expenses – signed expense claims and travel cost receipts; and
- for grant payments – letters of approval signed by a Minister or senior government official.

2.34 We detected three instances where payments were processed and posted by CSU's with insufficient or no supporting documentation. If payments are not supported by such documentation there is risk that payments will be made for purposes other than intended.

Recommendation 2.7
Payments should not be processed by CSU's unless all relevant supporting documentation is provided.

2.35 *Payment runs* – A key control over the processing of electronic vendor payments is the reconciliation of payment run totals to bank reports of payments processed. It is the responsibility of the Government Accounting Division of the Department of Finance to perform this function. If this balancing process fails to take place on a timely basis there is risk that errors or fraudulent transactions will go undetected before payments are made. We found two instances where there was no evidence of the balancing of batches of electronic payments.

Recommendation 2.8
The balancing of electronic payments to bank records should be performed and documented by the Government Accounting Division of the Department of Finance before payments are made.

2.36 Another common control over electronic payments is to program the responsible computer system with limits on how large a payment it will

process. There are two limits set for government's electronic payments. Individual payments relating to the Department of Community Services' income assistance program are limited to $25,000 or less. All other government payments are limited to $25 million or less.

2.37 The $25 million dollar limit was set to accommodate very large loan and grant payments made by government. However, it does not provide much control over the average electronic payment. If someone was able to access and change an electronic payment run file before it was sent to the bank, and other controls were circumvented, it is conceivable that this person could transfer an amount under $25 million to another bank account, perhaps in another country. We believe there is a need for a series of dollar limits requiring multiple or higher levels of approval to exceed. These may best function at the bank, and require special letters or other signed approvals be sent with payment runs.

Recommendation 2.9
The Department of Finance should implement lower or multiple levels of electronic payment limits to prevent a very large, unauthorized electronic payment from being processed.

Testing of Control over the Vendor Master File

2.38 There is a very important component in all payment systems generally known as the vendor master file. This is a database file that contains all the information pertinent to each approved vendor, such as name, address, assigned vendor number and payment preference (i.e., cheque or electronic payments). It is critical that strong control be exercised over who can approve, create or change vendor information in such files. Without strong control, fictitious vendors could be set up or payments could be redirected to another bank account.

2.39 All vendor accounts are approved and created through Government Accounting. When a department deals with a vendor that has not previously done business with the government, it requests the vendor be set up in the payment system by sending a form to Government Accounting. A copy of an invoice must be attached to the request so Government Accounting can be sure it has accurate vendor information and it can check that the vendor is not already approved and in the system.

2.40 We examined a sample of 30 entries to create or change vendor information in the master file. We found the following.

- Three entries occurred relating to income assistance payments from the Department of Community Services where no list exists of individuals who are authorized to approve the set up and changing of vendors.

- Four entries occurred where a copy of the invoice was not provided.

Recommendation 2.10
The Department of Community Services should provide Government Accounting with a listing of all employees authorized to approve income assistance payments and ensure that the listing is promptly updated when changes occur.

Recommendation 2.11
Government Accounting should not create or change vendor master file records unless the request is fully supported by required documentation.

Journal Vouchers

2.41 Some of the transactions we selected for testing were journal vouchers. These generally represented entries to set up accounts payable, correct errors or reclassify previous entries. Journal vouchers are powerful accounting tools which, if not properly controlled, can provide means to cover up errors or fraudulent activities.

2.42 We were unable to trace 16 journal voucher transactions to their related payments because the journal vouchers did not contain sufficient information to enable this. We reviewed these transactions with Government Accounting staff and they were also unable to trace the journal vouchers to the related payments. The risk in these instances is that inappropriate journal vouchers could be posted and not be discovered since there is no way to substantiate them against their related transactions.

Recommendation 2.12
CSU's should ensure there is sufficient information presented with journal vouchers to identify any related transactions.

Service Audit Report on General Information Technology Controls

2.43 The government's SAP Customer Competency Centre is responsible for the management, operation and maintenance of the government's corporate financial management systems. These include the government's processes relating to vendor payments. An independent audit focusing on the adequacy of the Centre's general information technology controls is conducted by a public accounting firm each year. This audit examines subjects such as who can access computer systems, adequacy of system back-up and recovery processes, how well the data and physical assets of the systems are protected, and how changes to computer application programs are controlled.

2.44 The most recent audit, for the year ended March 31, 2008, resulted in a qualified opinion based upon non-achievement of two of nine control objectives defined for the audit. We examined the report from this audit and noted several control deficiencies were found that have relevance to the government's vendor payment systems. Based on the auditor's qualified report and specific control deficiencies described, we concluded that general information technology controls are not strong enough to ensure payments to vendors are adequately controlled.

Internal Control System Documentation

2.45 Roles and responsibilities for specific internal controls are delegated throughout government. While the Provincial Finance Act includes general references to the roles and responsibilities of the Minister and Deputy Minister of Finance in this regard, there is little documentation of overall responsibility for control relating to the various entities which comprise the Government. Additional guidance needs to be developed and effectively communicated. This would include the roles and responsibilities of departmental and crown entity governing bodies and senior management in the design, implementation, operation and maintenance of internal controls.

2.46 A significant part of this audit was dedicated to determining and documenting government's systems of internal control relating to vendor payments. This involved determining the processes and transaction flows relating to vendor payments; identifying key controls which will ensure the payments are accurate, authorized and properly accounted for; and testing to ensure the systems described were indeed the systems in place.

2.47 It is a concern to us that Government has not prepared its own descriptions and evaluations of its control systems. Such documentation is critical to management's ability to design, modify and monitor internal control, and the absence of such may be a contributing factor to the control weaknesses we observed during this and other audits. During our Fall 2007 follow up of Recommendation 2.2 in the December 2005 Report of the Auditor General, it was indicated that the Department of Finance will be working with Service Nova Scotia and Municipal Relations on a pilot basis to develop a framework and methodology for the documentation of internal controls in government.

Recommendation 2.13

The Department of Finance should oversee a project to document and communicate responsibility for internal control throughout government, as well as to have all significant control systems in government documented. Once documented, control systems should be analyzed for weakness, deficiencies corrected, and a system to periodically monitor compliance with government control standards should be implemented.

Response: Department of Finance

The Department of Finance would like to thank the Auditor General for the opportunity to respond to this chapter concerning controls over payment to vendor. The chapter deals with issues of segregation of duties, testing of payment transactions, control of the vendor master file and internal control documentation.

Generally speaking, the findings and recommendations concerning segregation of duties, payment transactions and control of the vendor master file, address minimum risk activities and in many cases there are compensatory controls in place to address the weakness identified. However the report does suggest that some fundamental accounting policies and procedures need to be understood. The Department of Finance through the Controllers Office, will ensure that Corporate Services Unit and corporate staff are reminded of accounting policies and processes and, if needed, arrange for appropriate training.

The last section of the chapter deals with internal control responsibilities and documentation of controls. The Department agrees with the recommendation and an initiative is underway which will clearly communicate internal control responsibilities and establish a process to document control in high risk areas.

3 Government-Wide: Internal Audit

Summary

In fall 2007 we conducted a survey of numerous government entities to determine the extent of internal audit in government. Internal audit services are provided to government departments through the Internal Audit Centre (IAC), and, in two departments, through staff performing internal audit activities. Otherwise, the Nova Scotia Community College (NSCC) and the Nova Scotia Liquor Corporation (NSLC) have internal audit groups. The Workers' Compensation Board (WCB), which delivers a significant social program, also has an internal audit function. In addition, we noted the operations of the entities which conduct the activities of the Nova Scotia Gaming Corporation are subject to internal audit.

We are concerned with the lack of internal audit throughout government. Significant entities such as regional school boards and district health authorities do not have internal auditors. These entities alone account for $2.1 billion in government expenditures. We recommended an entity with audit oversight responsibility for the government assess the extent of internal audit activity and develop and implement a plan to address deficiencies.

The Province's Internal Audit Centre provides the majority of internal audit services to government departments. We recommended the Centre's annual audit plan be prepared as a result of an enterprise-wide audit risk analysis. The results of this process should be documented. This would help ensure the provision of sufficient and appropriate internal audit services to government departments.

We conducted fieldwork at the IAC, NSCC, NSLC and WCB. Several recommendations were made to each of the IAC, NSCC and NSLC to bring their audit charters, audit plans, audit manuals, and certain practices in line with internal audit best practices. Our procedures included testing a sample of audit files at each entity for compliance with standards of the Institute of Internal Auditors. We found no deficiencies in any files and noted the quality of work performed by each of the internal audit groups.

Despite requests for written responses, the Department of Finance and Treasury and Policy Board failed to provide any response to our findings or to indicate whether they agreed with our recommendations and whether they intended to take any action to implement them.

3 Government-Wide: Internal Audit

Background

3.1 The Institute of Internal Auditors defines internal audit as follows:

> *"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes."*

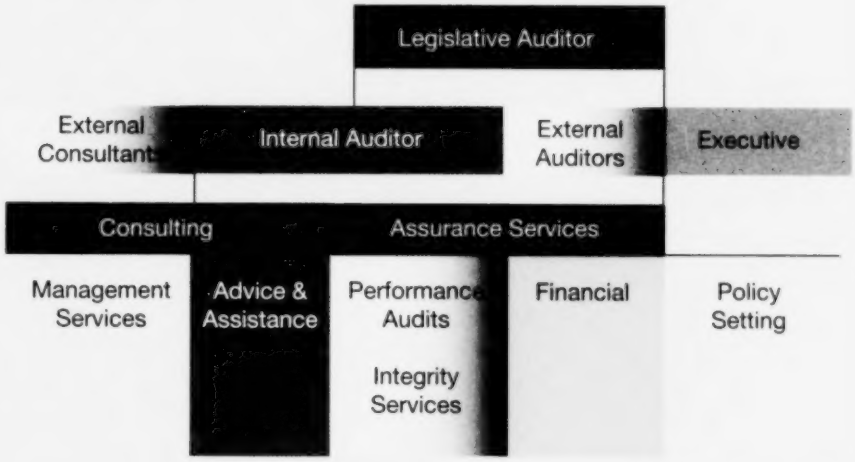
3.2 In a government environment, internal audit differs from legislative audit. The primary purpose of internal audit in government is to serve management and an audit committee, by providing assurance and advisory services. The primary purpose of the legislative audit function is to serve the legislative assembly and the citizens.

3.3 Internal audit differs again from external audit. An external audit is a periodic examination of the books of account and records of an entity and is conducted by an independent auditor. The focus is on the fair presentation of financial information provided by the entity to external users. Both internal and external audit must be independent. Internal audit achieves this independence through the governance and reporting structures within an entity.

3.4 In Nova Scotia, as in all other jurisdictions in Canada, the Auditor General is the external auditor of the Province's financial statements. The responsibilities of the Auditor General are defined in the Auditor General Act. As an independent audit function, the Auditor General selects engagements based on his selection criteria. These are in addition to specific audits noted in the Act, such as the audit of the Public Accounts. The Auditor General and audits performed by his Office are not a substitute for the work of an internal audit function.

3.5 The following exhibit illustrates the roles of internal audit, external audit and legislative audit in government.

Exhibit 3.1
Role of Auditors in Government



3.6 Internal audit has evolved in recent years from an activity focusing on transaction processing to a broad function identifying problems before they occur. The focus, as noted above, is not only on controls but also on risk and governance. Internal audit should be proactive. It is a key component in the overall governance and control framework of government. This role is further explained by the Institute of Internal Auditors (IIA) in its publication – *The Role of Auditing in Public Sector Governance*:

> *"... public sector auditing has broadened focus from individual transactions to control systems and program operations...As an essential element of a strong public sector governance structure, government auditing supports the governance roles of oversight, insight, and foresight."*

Audit Objectives and Scope

3.7 In fall 2007, we undertook a survey of internal audit within the Nova Scotia public sector. The results of that survey directed us to the audit of the internal audit function in several entities, and of the Province's Internal Audit Centre (formerly the Internal Audit and Risk Management Centre). The audit was conducted under Section 8 of the Auditor General Act and was completed in spring 2008.

3.8 The objectives of our audit were to determine:

- whether internal audit is functioning in accordance with policies established by the government, or a relevant board; and

- whether the internal audit function complies with the standards of the Institute of Internal Auditors, or international best practices in internal auditing.

3.9 Our audit criteria included the standards of the Institute of Internal Auditors and those identified by our Office for the engagement. These criteria were provided to senior management of the entities in which we conducted our audits, and to the Chair of the Province's Audit Committee.

3.10 In addition to the survey, our audit approach included interviews with management, documentation review, and testing of audit files. We did not reperform the work completed by internal audit in each audit file tested, and therefore we are not able to conclude on the appropriateness of the opinions provided and/or the conclusions reached in various internal audit files.

Significant Audit Observations

Internal Audit in the Government Reporting Entity

3.11 *Conclusions and summary of observations* – The Province of Nova Scotia is similar in many respects to an $8 billion corporation with numerous locations and divisions. Services are provided through departments, agencies, boards and crown corporations. Some essential services not provided directly by departments are delivered through district health authorities, regional school boards and other entities. Still other services are delivered on behalf of the Province by private sector entities.

3.12 We concluded the internal audit activities for the government reporting entity as a whole were inadequate, and in fact did not exist for many significant entities. There was no internal audit function in any of the district health authorities or regional school boards, which account for about $2.1 billion of Provincial expenditures. In addition, significant agencies, boards and commissions, were lacking internal audit.

3.13 *Survey results* – In fall 2007 we conducted a survey to determine the extent of internal audit in government. The entities we surveyed were those listed in Schedule 9 – Government Reporting Entity (GRE) – of the March 31, 2007 consolidated financial statements of the Province (see exhibit 3.2), with the exception of those we excluded because they did not meet our criterion of greater than $5.0 million in any financial statement balance. There were exceptions to our criterion; specifically those entities which did not have significant financial balances, but did provide significant service.

Exhibit 3.2
Government Reporting Entity

Listed below are the governmental units, government business enterprises and government partnership arrangements that comprise the government reporting entity and which were included in our survey.

Governmental Units

Consolidated Fund (includes government departments)

District Health Authorities
Annapolis Valley District Health Authority
Cape Breton District Health Authority
Capital Health District
Colchester East Hants Health Authority
Cumberland Health Authority
Guysborough Antigonish-Strait Health Authority
Pictou County Health Authority
South Shore District Health Authority
South West Nova District Health Authority

Regional School Boards
Annapolis Valley Regional School Board
Cape Breton Victoria Regional School Board
Chignecto-Central Regional School Board
Halifax Regional School Board
South Shore Regional School Board
Strait Regional School Board
Tri-County Regional School Board

Housing Authorities
Nova Scotia Housing Development Corporation
Annapolis Valley Housing Authority
Cape Breton Island Housing Authority
Cobequid Housing Authority
Eastern Mainland Housing Authority
Metropolitan Regional Housing Authority
South Shore Housing Authority
Tri-County Housing Authority

Boards, Agencies and Commissions
Art Gallery of Nova Scotia
Conserve Nova Scotia
Conseil scolaire acadien provincial
Industrial Expansion Fund
Izaak Walton Killam Health Centre
Maritime Fall Fair Association
Nova Scotia Business Incorporated
Nova Scotia Community College
Nova Scotia Community College Foundation
Nova Scotia Crop and Livestock Insurance Commission
Nova Scotia E911 Cost Recovery Fund
Nova Scotia Farm Loan Board
Nova Scotia Film Development Corporation
Nova Scotia Fisheries and Aquaculture Loan Board
Nova Scotia Government Fund
Nova Scotia Health Research Foundation
Nova Scotia Innovation Corporation
1402998 Nova Scotia Limited
3039255 Nova Scotia Limited
3087532 Nova Scotia Limited
Nova Scotia Legal Aid Commission
Nova Scotia Municipal Finance Corporation
Nova Scotia Nominee Program Fund
Nova Scotia Pension Agency
Nova Scotia School Insurance Exchange
Provincial Drug Distribution Program
Public Archives of Nova Scotia
Resource Recovery Fund Board Incorporated
Sydney Steel Corporation
Sydney Tar Ponds Agency
Sydney Utilities Limited
Trade Centre Limited
Waterfront Development Corporation Limited

Government Business Enterprises

Halifax-Dartmouth Bridge Commission
Highway 104 Western Alignment Corporation
Nova Scotia Gaming Corporation
Nova Scotia Liquor Corporation

Government Partnership Arrangements

Atlantic Provinces Special Education Authority
Canada-Nova Scotia Offshore Petroleum Board

3.14 We contacted management or senior management at each entity surveyed and asked whether there was an internal audit function, or whether the entity had contracted externally for internal audit services.

3.15 We determined an internal audit function existed at the Nova Scotia Liquor Corporation, Nova Scotia Community College, and for the Consolidated Fund through government's Internal Audit Centre. In addition, although it is not included in Schedule 9, we also contacted the Workers' Compensation Board and found this entity had an internal audit function. Our observations and conclusions with respect to these entities are noted later in this report. We also noted the operations of the entities which conduct the activities of the Nova Scotia Gaming Corporation (NSGC) are subject to internal audit. We did not audit the internal audit function at these entities affiliated with NSGC because neither is controlled by the Province.

3.16 In addition to the survey, we also met with senior management of the Province's Internal Audit Centre (IAC). (See discussion of the IAC beginning at paragraph 3.22 below. Briefly, the IAC provides internal audit services to departments forming the Consolidated Fund.) The purpose of our meeting was to determine the extent to which this central group considered internal audit of entities within the GRE. We asked whether the IAC:

- acted as an oversight function to support an existing internal audit activity within the entity;
- actually provided internal audit services to the entity; or
- had performed any analysis to determine that the risks of the entity had been evaluated from an overall perspective that allowed IAC to conclude the extent of internal audit, including the absence of internal audit, was appropriate.

3.17 We noted IAC was not aware of the extent of internal audit activity throughout the GRE.

3.18 The lack of internal audit throughout the GRE is a significant deficiency, and the impact of its absence in the overall governance framework of the Province of Nova Scotia cannot be overstated. The entities which do not have internal audit are significant – district health authorities, regional school boards, regional housing authorities and various agencies of government. District health authorities and regional school boards alone account for $2.1 billion of total provincial expenditures. They also deliver significant programs on behalf of government.

3.19 The IIA concludes the following in *The Role of Auditing in Public Sector Governance:*

> *"Because government auditing is key to good public governance, it is crucial to maintain an appropriate* (audit) *configuration with an appropriately broad mandate to achieve the organization's governance objectives. The government audit activity's mandate should be as broad as possible to enable it to respond to the full scope of the government's or governmental unit's activities. … every government requires some form of independent audit activity that has authority to evaluate the full range of the government's activities."*

3.20 Government needs to assess the mandate of its internal audit activity and address deficiencies. The mandate established in the existing Internal Audit Charter for the Province clearly excludes an assessment of the operations in the significant governmental units and government business enterprises, as indicated:

> *"The mandate and priorities for internal audit reflect the key clients of the function – Deputy Ministers and Senior Managers of Departments cited under the Public Service Act… Where Departments have arms-length relationships with organizations that are funded exclusively or substantially by government; that being, Governmental Units and Government Business Enterprises as outlined in the Provincial Finance Act, the key clients may request that Internal Audit conduct governance reviews and compliance auditing related to the contracts, agreements and other mechanisms that formalize the relationship between the Departments and the arms-length organizations."*

3.21 Boards of directors or management of governmental units and government business enterprises are responsible to ensure the governance framework for the entity includes an adequate and appropriate internal audit function. Such a function contributes to the improvement of risk management and control systems to ensure the reliability and integrity of financial and operational information, compliance with laws and regulations, efficiency and effectiveness of operations, and safeguarding of assets. An entity within government with audit oversight responsibility needs to ensure the extent of internal audit throughout the GRE is appropriate.

Recommendation 3.1

An entity with audit oversight responsibility should assess the extent of internal audit activity within the government reporting entity. The assessment should identify the gaps between what is currently provided by existing internal audit and the audit needs of the government reporting entity. The results of the assessment should be used to develop a plan to address deficiencies, including an implementation schedule.

Audit Activity in Core Government

3.22 *Conclusions and summary of observations* – We concluded the internal audit function within the core government was not adequate. While the Internal Audit Charter described the mandate, responsibilities and authority of the internal audit function, the full extent of the mandate was not met. For purposes of this audit, we have defined *"core"* government the same as has been defined in the Province's Internal Audit Charter – that is, departments cited under the Public Service Act.

3.23 Internal audit activity in the core government is substantially performed by the Internal Audit Centre (formerly the Internal Audit and Risk Management Centre). To date, the majority of IAC's work was as a result of requests from senior departmental management, and therefore it was not effectively fulfilling its mandate. We recommended IAC formalize the process for selecting its activities to ensure all departments are receiving sufficient audit services. We have also made recommendations for review and formal approval of the Internal Audit Charter.

3.24 Based on the results of our audit testing, we noted audits performed by the Internal Audit Centre complied with relevant attribute and performance standards of the Institute of Internal Auditors. These include due professional care and engagement planning, performance and reporting.

3.25 *Internal Audit Centre* – The mandate for internal audit is defined in the Province's Internal Audit Charter as follows:

> *"Internal Audit's primary role is to determine whether the Province's network of risk management, control and governance processes, as designed and represented by management, is adequate and functioning in a manner that ensures:*
>
> - *Resources are acquired economically, used efficiently, and adequately protected;*
> - *Programs, plans, and objectives are achieved;*
> - *Risks are appropriately identified and managed;*
> - *Significant financial, managerial, and operating information is accurate, reliable, and timely; and*
> - *A strong governance and control environment is promoted."*

3.26 This reflects the mandate of a fully operational and effective internal audit function within a government. Objective and independent assessments of

these areas by an internal audit function would provide any government with a full accountability of its activities to stakeholders. We noted the Charter does not specifically refer to the IAC as the central group to deliver internal audit services and this should be done. For purposes of this audit, we have determined the IAC performs the majority of internal audit work in the core government. This is supported by our work noted in paragraph 3.42 below. Our findings and conclusions with respect to internal audit refer mainly to the IAC.

3.27 While there are aspects of IAC's operations, and therefore, the Province's internal audit function, that are effective, the following paragraphs detail deficiencies that indicate the internal audit function was not operating as intended.

3.28 *Annual audit plan* – The projects for the period considered in our audit – 2006 and 2007 – included operational reviews, compliance audits, and transaction processing reviews. These were either conducted by IAC staff or outsourced by IAC to third party service providers. The IAC had 10 staff in 2007. When this Report was written, the IAC had 12 staff, and had recently hired a new Executive Director.

3.29 We reviewed the list of projects completed or in progress for 2006 and 2007. There were 46 projects at various stages of completion on the list provided by IAC. Nine of these projects related to central government (i.e., the Department of Finance) and the remaining to government departments. There were no government-wide services provided. We noted internal audit services were provided to 13 of the 20 departments (including Treasury and Policy Board) in 2006 and 2007.

3.30 The IAC facilitates the risk assessment process in departments. (Further details of this process are noted in paragraph 3.35 below.) As a result of this process, we were informed senior management in departments for which risk assessments have been performed identifies those areas which they would like IAC to audit. Our audit scope did not extend to determining whether risks identified by departments were part of the IAC plan.

3.31 The risk assessment process in 2006-07 led to the development of the 2007-08 audit plan. IAC management could not locate an audit plan for 2006-07. Two audits were initiated by IAC outside of the risk assessment process in response to deficiencies identified during 2006-07. IAC management informed us the requests for audits by senior departmental management are only one aspect of the annual audit plan. They noted the audit plan also results from consultation with deputy ministers and based on IAC management's departmental knowledge. We did not see evidence of any additional analysis which resulted in additional projects on the audit plan for either of 2006 or 2007.

3.32 In order to be fully effective, and to ensure sufficient and adequate internal audit services are provided to core government, the IAC should develop its annual audit plan as a result of enterprise-wide audit risk analysis. Due to the current audit selection process, there is potential for any number of departments, in any year, to not have internal audit services because departmental senior management had not requested them and because an analysis had not been prepared by IAC.

3.33 IAC management indicated it recognizes the need for a more robust audit selection process and with recent increases in staff resources, internal audit will continue to evolve and mature. This process will also ensure the internal audit function operates as an effective internal control.

3.34 A unique aspect of internal audit in a government environment, and one that is evident in Nova Scotia's core government, is the dual role of deputy ministers and internal audit. Both must consider the needs of government as a whole. However, deputy ministers must also consider the needs of their departments, and the IAC must ensure the audits it selects meet the needs of its clients – i.e., deputy ministers. There can be a conflict between what internal audit activity is needed at an enterprise level and what is needed in individual departments. It is up to the Audit Committee to ensure the audit plan for IAC reflects the appropriate balance.

Recommendation 3.2
Senior management of the Internal Audit Centre should prepare IAC's audit plan based on an enterprise-wide audit risk analysis, and considering consultation with deputy ministers. The results of this consultative and evaluative process should be documented. The Audit Committee should formally approve the plan.

3.35 *Risk management* – Risk management is the process of identifying and assessing risks. It involves strategic decisions on mitigating risks and accepting residual risk. Risk management is a management function. The role of internal audit in risk management, according to IIA Standards, is to *"...evaluate and contribute to the improvement of risk management...using a systematic and disciplined approach"*.

3.36 The IAC has facilitated risk assessments in various departments in each of the last two years. In 2006-07, IAC management indicated risk assessments were conducted in seven departments. As of June 30, 2008, 16 assessments had been completed or were pending throughout core government. We did not audit the process or results of these risk assessments.

3.37 The risk assessment process facilitated by IAC is a component of the Province's developing risk management process, and IAC management indicated the Province is exploring the implementation of a risk

management framework. It was noted IAC will be in a better position to assess whether risks have been identified and appropriately managed across core government once the risk management framework has been fully implemented.

3.38 *Independence* – An internal audit group must be independent of the activities it evaluates in order to be effective. The IIA Standards indicate the organizational structure of an entity should facilitate the independent planning, execution and reporting of audits.

3.39 The IAC Director previously reported to the Province's controller on administrative matters and this did not reflect best practice. The newly-hired Executive Director now reports administratively to the Deputy Minster of Finance. This was a significant step toward independence and compliance with IIA Standards.

3.40 The IAC reports functionally to the Audit Committee. This committee is the oversight body for the IAC. It consists of deputy ministers of various departments and is chaired by the Deputy Minister of Treasury and Policy Board. We note the Charter includes a statement regarding independence and objectivity with respect to providing advice to departments, specifically; "*Internal Auditors may provide advice but may not install procedures or systems, prepare records, or engage in any line activity that would compromise independence and objectivity.*" This clarifies the role of internal audit on consulting activities.

3.41 IIA Standards require the Charter be formally approved. This has not been done. The Charter should be reviewed by the audit committee on a regular basis to ensure it reflects the needs of the Province. The Charter should also be updated to reflect the Internal Audit Centre as the group which performs the services detailed in the Charter. At present, the Charter does not refer to the IAC.

Recommendation 3.3
The Internal Audit Charter should be periodically reviewed, and updated as needed, by the Audit Committee. The Charter should be formally approved by the Audit Committee.

3.42 *Internal audit activities within departments* – In order to assess the extent of internal audit activity in the core government, audit activity not conducted by the IAC must be considered.

3.43 During the survey phase of this audit, we were made aware of internal audit activity within two departments, Community Services and Justice. There are individuals in those departments who are termed internal auditors,

either formally or informally. Management in both departments indicated these positions were established because it was not possible or practical for IAC to meet their needs.

3.44 Internal audit in each of these departments is in its early stages and therefore we did not evaluate audit activities against IIA Standards, which consider a more mature internal audit function. However, we did review files detailing their audit activity. We noted in each of these departments, procedures were performed and evidence documented in the files to support the conclusions formed and recommendations made. In most cases each file included a planning memo, risk assessment and audit program. One department indicated their primary focus at present is to show their presence as a means to increasing controls.

3.45 In addition, we also requested information from departments as to the extent of audit activity in their departments not conducted by IAC. Based on the responses we received, there was not a significant amount of audit activity outside of that requested to be performed by IAC. Therefore, we concluded IAC is the primary means through which internal audit activity is conducted throughout core government.

3.46 The governance structure within the core government establishes the responsibilities of deputy ministers over their respective departments. Consequently, deputy ministers have the authority to direct activities to ensure an identified need is met. However, these activities should be considered by the Audit Committee or an audit oversight body as part of the overall assessment of internal audit activity within the government. If departments continue to develop internal audit activities outside IAC, there should also be a process to ensure the selection, planning, execution and reporting of audits is in accordance with recognized professional standards.

Recommendation 3.4
The scope, nature and quality of internal audit activity throughout core government should be evaluated by an entity responsible for audit oversight. The results should be used to determine whether departments are receiving sufficient and appropriate internal audit services, and a plan should be developed to address the deficiencies.

3.47 There appears to be a lack of clarity about the role of an internal auditor. We reviewed work performed by the internal auditors in the Departments of Community Services (DCS) and Justice and noted internal control evaluation was one of the objectives in the majority of the audits we tested. Typically, internal control evaluation is an internal audit function. However, senior management at DCS informed us there was no internal audit function; rather, the individual was referred to as a Financial Compliance Officer.

3.48 As noted, IAC recently hired a new Executive Director. He provided us with information he has presented to the Audit Committee on the role of internal auditors, in which he explains an internal auditor provides independent assurance and evaluates and improves departments' processes. This definition should clarify the role of the IAC and its internal auditors.

3.49 *Compliance with auditing standards* – We selected five audit files at IAC and tested against IIA Standards including adequate planning and an indication in the files that engagement objectives had been met. We found the files were well-prepared and organized, and in all cases met the Standards. There was evidence of due care and quality assurance, the latter through supervisory review.

3.50 *Quality assurance and continuous improvement* – IAC has prepared an extensive Policy Manual. There are policies which address quality assurance such as supervisory file reviews and the use of assurance standards issued by the Canadian Institute of Chartered Accountants.

3.51 In addition, the Policy Manual supports continuous improvement. Customer surveys are to be sent after each audit. This has recently begun at IAC. There is also a performance measure to determine how many recommendations have been implemented. We acknowledge the efforts of IAC to ensure their work adds value.

3.52 In order to be fully compliant with IIA Standards, the IAC needs to have an assessment performed by the IIA. IIA Standards require an external assessment be conducted at least once every five years. IAC is approaching its first five years of service and management indicated this timeframe for an external assessment will be met.

Recommendation 3.5
The IAC should ensure it obtains an external assessment of its activities in the timeframe required by IIA Standards.

3.53 *Reporting* – Each audit file we tested concluded with a report to management of the related activity. In addition, we were informed the executive summary of each report is provided to the Audit Committee. IAC management informed us the Audit Committee may request the full report, and has done so on occasion. We noted the minutes included a status report of IAC activity.

3.54 *Follow-up* – There is a tracking system for recommendations made in each audit. A letter is sent six months after the report was issued requesting information as to whether the various recommendations have been implemented. At the time of our audit, this was a one-time only process.

The Executive Director of IAC informed us the follow-up process is to be revised to ensure the status of recommendations is tracked until the issues prompting each recommendation are fully resolved.

Nova Scotia Community College

3.55 *Conclusions and summary of observations* – The internal audit group at the Nova Scotia Community College functions in accordance with key aspects of the audit charter for the group. It operates independently of College management and reports audit results regularly to the College's Finance and Audit Committee. We made recommendations for improvements to the Internal Audit Charter and the group's policy and procedure manual. Further, we note that based on the results of our audit testing, audits performed by the internal audit group at the Nova Scotia Community College comply with those performance and attribute standards of the Institute of Internal Auditors that are relevant to the conduct of audits.

3.56 *Risk management, controls and governance* – The internal audit group at the College requests divisional managers prepare a risk assessment every two years. Internal audit also prepares a risk assessment. These risks are ranked and used by internal audit to prepare the audit plan.

3.57 The IIA Standards reference internal audit's evaluation of risk management. We spoke with management and confirmed there was no evaluation by internal audit of the risk management system at the College, and we suggested consideration be given to this to ensure compliance with the Standards. It is evident, irrespective of this, the College relied on the risk assessment process facilitated by internal audit to identify and rank risks.

3.58 The IIA Standards also note internal audit is to evaluate and contribute to the improvement of controls and governance. We noted, just as with risk management, there was no formal evaluation of control and governance. However, internal audit at NSCC includes both control and governance aspects in its audits, especially its audit of individual NSCC campuses. We suggest this reflects an appropriate consideration of these aspects of the control framework at NSCC, and is meeting the needs of the College.

3.59 *Independence* – The internal audit group operates as an independent function at the College. We noted the internal audit group prepares an annual audit plan which is presented to the Finance and Audit Committee although not formally approved by that group. The audit plan notes audits are to be conducted in accordance with IIA Standards.

Recommendation 3.6
The Finance and Audit Committee of the College should approve the annual audit plan.

3.60 *Audit charter* – The Internal Audit Charter was provided to the Finance and Audit Committee in April 2003. The Charter included the authority and responsibility of the Director of Internal Audit, the scope of activities, and the responsibilities. It also established the reporting mechanisms and requirements of the Director. The minutes note there were comments and feedback regarding the Charter, but there was no formal approval. The Charter was updated in 2005.

Recommendation 3.7
The Internal Audit Charter should be approved by the Finance and Audit Committee of the College.

3.61 *Results of testing* – We tested five audit files prepared by the College's internal audit group. Details of the files were tested against IIA Standards and indicated engagement objectives had been met. In all cases, the files complied with applicable IIA attribute and performance standards.

3.62 *Quality assurance and continuous improvement* – The internal audit group at the College has a detailed policy and procedure manual. There is specific guidance on the preparation of working papers and the process to be used to conduct an audit – how to perform a preliminary survey of an audit area and what audit program to use. Although the manual does not specifically indicate working papers in audit files are to be reviewed, we saw evidence of this in all files we tested.

3.63 With respect to quality assurance and continuous improvement, the IIA Standards note the following. *"The chief audit executive should develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity and continuously monitors its effectiveness."*

3.64 This standard is directed toward continuous improvement of the internal audit function itself. It is not meant to establish how internal audit improves the organization it serves. The IIA Standards further notes internal and external assessments, the latter by the IIA itself, provide support for the direction of an internal audit function.

3.65 The Internal Audit Charter at the College notes the group *"...uses continuous improvement as an integral part of the group's activities."* However, the Charter and the policy and procedure manual focus on how internal audit contributes to the improvement of the College, not on continuous improvement of the function. While we acknowledge recommendations made by the internal audit group aim to improve the College, the manual should address how internal audit at the College intends to monitor its activity, and use these results to ensure it continues to add value, in order to comply with IIA Standards.

Recommendation 3.8
The policy and procedure manual should be revised by the College to indicate how the internal audit function will evaluate its results and improve its performance. An external assessment to ensure compliance with IIA Standards should be performed.

3.66 *Reporting* – The Charter notes *"The Director of Internal Audit shall have the authority to report directly to the College's President and the Finance and Audit committee."* The Charter further says *"The Director of Internal Audit, at his discretion, may forward copies of the audit report, including management's response, to the Finance and Audit Committee."*

3.67 Our review of the Finance and Audit Committee minutes indicated the Director of Internal Audit reported on the results of audits. We did not ensure the results of all audits during our testing period were provided to the Finance and Audit Committee and therefore we cannot comment whether, in fact, discretion was used in reporting results. We noted two of the five audits we tested were specifically referenced in the minutes.

3.68 Recommended practice on the reporting relationship between the chief audit executive and an audit committee are noted in the CICA publication *20 Questions Directors Should Ask About Internal Audit*. It notes the chief audit executive should *"...report the results of major activities and key findings and issues to the Audit Committee."* The Internal Audit Charter at the College should be revised to reflect this best practice.

Recommendation 3.9
The Internal Audit Charter should be revised by the College to remove discretion in the reporting of audit results by the Director of Internal Audit to the Finance and Audit Committee.

3.69 *Follow-up* – With respect to follow-up, the Director tracks all recommendations and follows up with clients until the recommendations have been implemented.

Nova Scotia Liquor Corporation

3.70 *Conclusions and summary of observations* – The internal audit group at the Nova Scotia Liquor Corporation (NSLC) operates in accordance with its mandate. The significant activity of the group is store audits and the importance of this activity reflects corporate goals of the NSLC. We recommended the Internal Audit Charter be updated to reflect current Institute of Internal Auditors Standards. We selected audit files at NSLC and tested against IIA Standards. We found the work in the files was in compliance with those attribute and performance standards applicable to the conduct of audits.

3.71 *Risk management, controls and governance* – The Corporation is in the process of an enterprise risk management (ERM) exercise. We noted the Internal Audit Charter does not address risk management and the role of internal audit in its evaluation and improvement. The Charter should be revised to reflect this role. The Manager of Internal Audit provided us with a presentation he made to the Board of Directors at the Corporation in which he expanded on the importance of ERM and included the results of a control self-assessment survey he conducted.

3.72 With respect to controls, we noted these are addressed in the objectives of the store audits. We further noted the control self-assessment included aspects of governance such as ethical values and the role of the Board of Directors and the Audit Committee. While not fully in compliance with IIA Standards, the internal audit group actively promotes strong controls and governance.

3.73 *Independence* – The Manager of Internal Audit reports to the Corporate Secretary of the NSLC for administrative matters, and functionally to the Audit Committee. The Internal Audit Charter does not reflect the current reporting relationship of Internal Audit within the organization, and should be updated.

3.74 Until recently, the Manager of Internal Audit prepared an annual audit plan. This plan reflected the results of risk assessments prepared for stores, operations and manufacturers. The risk assessments ranked each assessed area based on various criteria – for example, stores were ranked based on factors such as the class (size) of the store, breakage, cash shortages and audit history. Divisional management was asked for input, but the Manager indicated he was responsible for the preparation of the plan and the selection of the audits.

3.75 Neither the Terms of Reference for the Audit Committee nor the Internal Audit Charter requires the audit plan be approved. We saw the audit plan was discussed in certain minutes of Audit Committee meetings, but did not see any specific approval. Recommended practice on the approval of audit plans is noted in the CICA publication *20 Questions Directors Should Ask About Internal Audit*. It notes the Audit Committee should "*...approve the Internal Audit plan annually.*"

Recommendation 3.10
The Corporation's Internal Audit Charter and the Terms of Reference for the Audit Committee should be revised to indicate the Committee is to approve the audit plan.

3.76 The Manager indicated one result of the enterprise risk management exercise was the completion of a five year audit plan. We noted one change in the five year plan compared to the annual plan was a more specific schedule for store audits, based on the class of the store. This reflects the legislative responsibility of the NSLC which includes attaining suitable financial revenue for the Province. We suggest the five year plan should have an annual operational plan and this should be approved by the Audit Committee.

3.77 *Audit charter* – The Internal Audit Charter is included in a policy and procedure manual for financial management. In order to promote the independence of the internal audit function, related policies and procedures should be documented in a separate manual for the internal audit group. Senior management at NSLC indicated the Corporation is aware its manuals require updating.

3.78 The Charter includes the purpose, objective and scope of the work of the internal audit group. The responsibility and authority is noted in the manual, but outside the Charter. Also, as discussed previously, the evaluation of the Corporation's risk management system is not included in the Charter. In general, the Charter should be reviewed and updated to ensure it reflects current IIA Standards. This is consistent with recommended practice which suggests a review at least every three years. The existing Charter was approved by senior management of the former Nova Scotia Liquor Commission, but not by the current Audit Committee.

Recommendation 3.11
The Internal Audit Charter should be reviewed by the Corporation and updated to ensure it complies with IIA Standards. The Charter should be approved by the Audit Committee.

3.79 *Results of testing* – We tested five files prepared by the NSLC Internal Audit group. All files indicated the scope and objectives of each audit, and conclusions were drawn for all objectives tested. We did not note any instance of non-compliance with IIA Standards in the files we tested.

3.80 *Quality assurance and continuous improvement* – Quality assurance is implemented through the policies and procedures detailed in the Internal Audit section of the Financial Management manual. It includes a description of the components of the audit plan, the preliminary survey, the process for examining and evaluating information, and related working paper preparation, and the requirement for working paper review. The focus of the section on examining and evaluating information is on internal controls; this should be expanded to include the current broad range of internal audit activity contemplated in the IIA Standards.

3.81 The manual indicated the internal auditors are bound to comply with IIA Standards and Code of Ethics. As noted previously, these include monitoring the effectiveness of the function through both internal and external assessments. The Internal Audit group at NSLC has not been subject to an external assessment by the IIA and this should be done to ensure compliance with the Standards. The manual was also deficient in identifying a process to monitor the effectiveness of the internal audit function.

Recommendation 3.12
The Finance Management manual should be revised by the Corporation to indicate how the internal audit function will evaluate its results and improve its performance. An external assessment to ensure compliance with IIA Standards should be performed.

3.82 Although an external assessment has not been performed, the Manager of Internal Audit has completed a GAIN (Global Auditing Information Network) Survey which is a tool provided by the IIA providing benchmarks to users of the Survey on successful internal audit practices. While the Survey was completed by the Manager and therefore is not an objective assessment of NSLC's internal audit function, it provided feedback to the Manager in numerous areas. He indicated as a result of the Survey, it was recognized NSLC internal auditors required increased training, were lagging in the use of data extraction techniques during audits, and were not conducting customer satisfaction surveys. The Manager noted these changes have been made and are an indication of continuous improvement. We did not verify these comments.

3.83 *Reporting* – Although the policy and procedure manual does not specify the reporting requirements of the Manager of Internal Audit, other than with respect to individual audit results, the relationship is clearly explained in a June 2003 memo from the (then) Chair of the Audit Committee noting the Manager reports administratively to the Manager of Finance and that *"On all audit business impacting the corporation,* (the Manager) *will report to the Audit Committee. This will ensure that* (the Manager) *has full independence of action when completing his various Audit responsibilities."*

3.84 Until 2007, the Manager of Internal Audit provided an annual report to the Audit Committee noting the overall results of audit activity against the audit plan, and provided details of store audit results. In November, 2006, the minutes indicated the Audit Committee requested quarterly reports be provided. More frequent reporting to the Audit Committee, including the results of audits, began in 2007. The update to the Charter should note this reporting relationship.

3.85 *Follow-up* – Written reports were provided as a result of all the audit files we tested. The Manager of Internal Audit maintains a spreadsheet indicating the disposition of recommendations. The Manager indicated he enquires of the respective divisional staff as to whether the recommendations have been implemented but does not verify responses. He noted most recommendations resulting from store audits are implemented immediately. We suggest a more formal follow-up system be developed to track the status of all recommendations, and the results be reported to the Audit Committee.

Workers' Compensation Board

3.86 *Conclusions and summary of observations* – The internal audit function at the Workers' Compensation Board (WCB) is outsourced to a third party service provider. Based on discussions with WCB management and review of documentation, the internal audit function is considering risk management, internal controls and governance in its audit plans. The internal audit function at the Worker's Compensation Board is in compliance with policies established by the Audit Committee.

3.87 *Audit activities* – The Internal Audit Charter establishes the mission, authority, responsibility of the service provider, and notes the internal auditor will comply with the standards and codes of ethics of the IIA. The Charter also notes the independence of the internal auditor; specifically, the service provider auditor reports to the Chair of the Audit Committee and to the Board's Chief Executive Officer. An engagement letter between the service provider and the Board further summarizes the terms of the engagement and the services to be provided. The Internal Audit Charter was not formally approved by the Audit Committee but was recommended by that Committee to the Board of Directors.

3.88 The service provider prepares an Internal Audit Plan for the Audit Committee. Based on discussions with the Chair of the Audit Committee, and supported by a review of the minutes, the Committee challenges the Plan and changes are made. The mandate of the Committee indicated it recommends the Plan to the Board of Directors. We noted through a review of the Audit Committee minutes, the Plan is fluid and changes are made during the year at the request of the Committee. The Audit Plan is risk-based and reflects a mature internal audit function, indicating "... *new initiatives have also been included in the audit plan, where the objective of the Internal Auditor's involvement would be to provide proactive risk identification and control advisory services.*"

3.89 The results of each audit are provided to the appropriate manager, and the Audit Committee receives a draft of the individual reports as well. The

service provider presents an update on the status of audits in the annual Plan to the Audit Committee on a regular basis. A formal system for tracking the implementation of recommendations was developed by the service provider in 2007. We were informed each recommendation is rated as high, medium or low in terms of its necessity for implementation, and that the service provider tracks each recommendation to ensure it is implemented. We did not audit the tracking system or its results.

3.90 The Internal Audit Charter and the Internal Audit Plan at WCB reflect IIA Standards. We did not audit for compliance with IIA Standards in individual audit files. Our criterion was to determine how an audit oversight body – the Audit Committee at the WCB – evaluates the work of the service provider, including the implementation of recommendations. Through review of documentation and discussions with management, we determined this criterion was met.

Response: Nova Scotia Community College

Recommendation 3.6
The Finance and Audit Committee should approve the annual audit plan.

The Director of Internal Audit will ensure the approval of the audit plan is documented in the minutes.

Recommendation 3.7
The Internal Audit Charter should be approved by the Finance and Audit Committee.

The Director of Internal Audit will ensure the approval of the updated Audit Charter is documented in the minutes.

Recommendation 3.8
The policy and procedure manual should be revised to indicate how the internal audit function will evaluate its results and improve its performance. An external assessment to ensure compliance with IIA Standards should be performed.

The Director of Internal Audit will amend the manual to include information on the procedures used by the internal audit group to monitor its activities and to continue to add value.

Recommendation 3.9
The Internal Audit Charter should be revised to remove discretion in the reporting of audit results by the Director of Internal Audit to the Finance and Audit Committee.

The Director of Internal Audit will amend the Charter to clarify the meaning of discretionary reporting. All significant findings / issues are currently reported to the Audit Committee.

Response: Nova Scotia Liquor Corporation

The NSLC welcomes the review by the Office of the Auditor General of the Internal Audit function at the NSLC. Our response to each of the recommendations made by the OAG is below. These recommendations have been reviewed and accepted by the Audit Committee of the NSLC Board. It should be noted that the Internal Audit function at the NSLC reports to the Audit Committee, and that the Committee has authority to either accept or reject the recommendations forwarded by management.

Recommendation - Internal Audit Charter

The Internal Audit Department agrees that there is a need to update the Corporation's Internal Audit Charter. The Internal Audit Department will review and update its charter by December 31, 2008 and present the revised Charter and recommendations to the Audit Committee for their consideration in early 2009.

Recommendation - Policy & Procedure Manual

The Internal Audit Department agrees that there is a need to update the Policy & Procedure Manual. The Internal Audit Department will review and update the Policy & Procedure Manual by December 31, 2008 and present the revised manual and recommendations to the Audit Committee for their consideration in early 2009.

Recommendation - External Assessment

The requirement for an external assessment will be included in the revised Internal Audit Charter. The Audit Committee has agreed with the recommendation and will ensure that an external assessment is carried out.

Response: Worker's Compensation Board

Good governance is a cornerstone of good business performance and we take our responsibility for safeguarding the WCBs assets seriously to ensure the sustainability of the WCB over the long-term. We are committed to transparency in our operations and to the independence of the internal audit function. We are proud and extremely pleased with the Auditor General's positive comments about our internal audit process.

4 Health: Home Care

Summary

Our audit of the Department of Health's home care program uncovered significant deficiencies. Many of these concerns were identified in previous audits of the home care program reported in the 1996 and 2002 Reports of the Auditor General. The Department's response to our recommendations has been inadequate. Only 17% of our recommendations from these audits were fully addressed in the six to twelve years since the reports were tabled. The Department is currently working to move or devolve many aspects of the home care program to the District Health Authorities (DHAs)/IWK Health Centre (IWK). We believe it is important to address identified deficiencies in the program before devolving responsibility to the districts. We recommended the program not be devolved to the DHAs/IWK until the Department has a plan of action to address all recommendations made in previous audits and this chapter.

There has been considerable activity in the continuing care area in recent years, including a number of strategies to address concerns with the capacity of the home care system and plans to further expand home care services. However, the Department has not determined the future demand for services and does not know whether service providers will have an adequate supply of trained professionals to provide future home care services. There is a risk sufficient numbers of trained staff will not be available to provide existing or expanded home care services in the future.

We assessed the processes for client assessment and reassessment as well as compliance with related policies and procedures. We concluded the processes and policies for the assessment and reassessment of home care clients were not always followed or we could not determine if they were followed. In some instances, we were unable to conclude whether authorized services were provided in accordance with client service plans. Departures from established policies could lead to delays in assessment and reassessment and preparation of incomplete or inappropriate service plans for home care clients.

We were unable to determine the extent to which the Department investigates complaints as the Department had no formal processes or policies in place. Complaint information was not available in a readily accessible manner. An effective complaint system is an important control to ensure clients' concerns are investigated and resolved on a timely basis. We recommended the Department establish a formal system to record and track complaints and their ultimate resolution.

We also found performance and statistical information inadequate. There were no performance measures, including targets, reported for the home care program.

4 Health: Home Care

Background

4.1 The Continuing Care Branch of the Department of Health (DOH) provides access to home care, long term care and adult protection services to support individuals with identified health and supportive care needs. In most cases, the need for care and support is for the longer term. However, the home care program also addresses short-term needs. While the majority of clients are seniors, services are also provided to younger adults and children.

4.2 Home care programs provide support to approximately 23,000 Nova Scotians. According to DOH, continuing care expenditures in 2007-08 totaled $522.9 million; with $136.1 million of that relating to home care.

4.3 The Continuing Care Branch has offices in each health district in the Province. Services are coordinated through a single entry access system. This system uses one phone number for all potential continuing care clients in Nova Scotia. Initial client data and limited assessment information is obtained to allow staff to prioritize the service request. This helps ensure care needs are identified through the use of a consistent assessment process.

4.4 Assessment, care coordination and ongoing case management are the responsibility of district office staff. Head office staff are responsible for the inspection of service providers. The Department of Health's Financial Services Branch is responsible for the overall financial administration of the home care program.

4.5 In Nova Scotia, the Department of Health has arrangements with a number of external service providers to deliver home care services to clients. Short term (acute) and longer term professional nursing care services are provided by registered nurses (RNs) and licensed practical nurses (LPNs). These services are generally provided by the Victorian Order of Nurses (VON) except in certain areas of the Province where services are provided by DOH nursing staff. Home support services including personal care, nutritional care, essential housekeeping, and home oxygen are provided by home support workers (HSWs), continuing care assistants (CCAs), and registered respiratory therapists (RRTs). Home care services are provided by 18 home care agencies, 6 VON branches, and 6 home oxygen providers.

4.6 In May 2006, the Minister of Health released the *Continuing Care Strategy for Nova Scotia: Shaping the Future of Continuing Care*. This document stated:

"Providing programs and services, such as home care, respite, and palliative care, in homes and communities is a main focus of this strategy. This approach is the most economical, provides the greatest ability to be flexible to diverse needs, and offers individuals and families the highest level of independence and quality of life." The strategy included several initiatives to expand and improve the continuing care system in the Province. Related action plans are expected to take ten years to complete. Initiatives planned for the first four years are estimated to cost $122 million.

4.7 Our most recent audit of the home care program was reported in the June 2002 Report of the Auditor General (Chapter 10).

Audit Objectives and Scope

4.8 In spring 2008, we completed a performance audit of the Department of Health home care program. The audit was conducted in accordance with Section 8 of the Auditor General Act and auditing standards established by the Canadian Institute of Chartered Accountants.

4.9 The objectives of our audit were to assess the adequacy of:

- processes used by the Department of Health to ensure service providers will continue to have an adequate supply of trained professionals to meet current and future demands for home care services;
- home care performance information prepared and reported by the Department of Health;
- processes employed by the Department of Health to ensure payments to service providers are properly approved and made for services authorized and delivered;
- processes for the assessment or reassessment of clients;
- compliance with assessment or reassessment policies;
- processes to ensure authorized services are provided in accordance with the client's service plan;
- processes used to ensure service provider staff delivering services are licensed or certified and that appropriate background checks are completed;
- complaint processes and assessment of compliance with policies; and
- progress made by the Department of Health in addressing recommendations from the 1996 and 2002 Reports of the Auditor General.

4.10 Generally accepted criteria consistent with the objectives of the audit did not exist. Audit criteria were developed specifically for this engagement. These criteria were discussed with and accepted as appropriate by senior management of the Continuing Care Division.

4.11 Our audit approach included a review of documents, reports, and client files; interviews with management and staff within the Department and service provider agencies; and a survey of service providers. We tested compliance with processes, procedures and policies at certain district offices and service providers located in Capital Health District (Capital Health) and the Colchester East Hants District Health Authority.

Significant Audit Observations

Follow-up of 1996 and 2002 Audits - Implementation Status

4.12 *Conclusions and summary of observations* – Our objective was to assess progress made by the Department of Health in addressing recommendations from two previous home care audits - see Report of the Auditor General - 1996 (Chapter 7) and 2002 (Chapter 10). We concluded the Department's response to our recommendations was inadequate. Minimal action was taken to address the recommendations in these chapters. Only 17% of our recommendations (5 out of 29) had been fully addressed and implemented. The Department has had between six and twelve years to address our recommendations and we believe their progress has not been sufficient.

4.13 *Status of recommendations* – We requested Department management complete a written self-assessment of their progress in implementing each recommendation. We conducted interviews and reviewed documentation to substantiate the self-assessments.

Exhibit 4.1 - Status of 1996 and 2002 Recommendations

Implementation Status	1996 Recommendations	2002 Recommendations	Total
Complete	3 (22%)	2 (13%)	5 (17%)
Not Complete	8 (57%)	10 (67%)	18 (63%)
Action no longer required or appropriate	1 (7%)	2 (13%)	3 (10%)
Do not intend to implement recommendation	2 (14%)	1 (7%)	3 (10%)
Total	14 (100%)	15 (100%)	29 (100%)

4.14 See Appendix I at the end of this chapter for a list of recommendations which were either not completed or the Department does not intend to implement

the recommendation. The Appendix does not include recommendations which were deemed no longer required or appropriate due to changes in the program since our original audits.

4.15 In 2006, DOH, along with the District Health Authorities and the IWK Health Centre, initiated a review to determine whether health services in Nova Scotia could be provided more efficiently to allow investments in new health programs and services. In December 2007, the consultants, issued their report titled *"Changing Nova Scotia's Healthcare System: Creating Sustainability Through Transformation"*. Government accepted all the recommendations made in the Report, including a recommendation that *"the Department of Health work collaboratively with the DHAs/IWK to implement a process that will ensure that responsibility for continuing care is devolved to the DHAs/IWK no later than the end of fiscal 2008/2009."* An implementation strategy is currently being developed to address this recommendation.

4.16 Throughout this Chapter we noted numerous instances where there were significant issues with the administration of the home care program. Certain issues were the result of the Department not addressing previous recommendations made by this Office. We believe the program should not be devolved to the DHAs/IWK until a plan of action has been prepared to address the recommendations made in this chapter, as well as 2002 and 1996 audits by our Office. Certain recommendations related to developing new legislation and consistent policies should be addressed before devolution as these areas will help form the framework of the home care program. We are concerned there is a risk that devolution of the program without addressing the issues we have identified may result in inconsistent program standards throughout the Province, or clients in similar circumstances authorized different services.

Recommendation 4.1
The home care program should not be devolved to the DHAs/IWK until an action plan has been prepared to address the recommendations made in this chapter and prior audits by our Office.

4.17 In our 2002 Report we noted there was no single piece of legislation covering the home care program. The Coordinated Home Care Act and Homemaker's Services Act were outdated and no longer relevant because of program changes. There has been no further progress in this area over the past six years and we understand there are no specific plans to update and consolidate these Acts.

Recommendation 4.2
The Department of Health, in partnership with Executive Council, should update and consolidate the Coordinated Home Care Act and Homemaker's Services Act.

4.18 Certain previous recommendations are discussed throughout the remainder of this Chapter.

Use of Service Providers

Contracts with Service Providers

4.19 *Conclusions and summary of observations* – Although most home care services are delivered by external agencies rather than DOH staff, the Department does not have current contracts with some service providers. Although DOH signs annual letters of understanding with certain service providers, we found these letters failed to address a number of key areas such as capacity to deliver home care services, requirements to follow the Department's standards of care, and audit provisions for this Office. Contracts are an important document for both the Department of Health and the service provider, as a means of ensuring the roles and responsibilities of both parties are clearly established and communicated. The lack of contracts with certain service providers, and inadequate letters of understanding with others, impairs the Department's ability to hold service providers accountable and effectively manage the program.

4.20 In Nova Scotia, the Department of Health has arrangements with a number of service providers to deliver home care services to clients. Most nursing care is provided through the VON; although there are a few areas where DOH staff provide nursing services. Other services, such as essential housekeeping, meal preparation and home oxygen services, are provided by various home support agencies and home oxygen providers. In total, DOH uses 31 service providers to provide services to home care clients.

4.21 Since the majority of home care services are delivered by non-government agencies, we expected DOH would have contracts with each nursing, home support or home oxygen agency. Signed agreements with service providers enhance accountability, ensure the expectations of both parties are clearly defined, and provide an opportunity for DOH to establish its service standards and performance reporting requirements.

4.22 *Lack of current contracts* – In 2007-08, the Department paid the VON $37.1 million to provide nursing services. At the time of our audit, there was no current contract between DOH and the VON for the provision of nursing services. The last contract expired March 31, 1996. During our 2002 home care audit, we recommended the Department negotiate a new contract with the VON. We were concerned the Department had not addressed this issue. During our current audit, we were informed the Department was negotiating a new contract with the VON.

4.23 We also noted the contracts with three home support agencies that provide overflow home care services in the Halifax area, expired in March 2002 and

have not been renegotiated. These agencies continue to provide services when needed.

4.24 In the 1996 Report of the Auditor General, we recommended the Department of Health review arrangements for the acquisition of nursing and home support services. We noted the Department should comply with the *Province of Nova Scotia Procurement Policy* and either obtain services through a competitive process or seek the necessary approval for an exemption allowing services to be obtained from a single source. No action has been taken to address this issue; thus we have repeated our previous recommendation.

Recommendation 4.3
The Department of Health should review arrangements for the acquisition of nursing and home support services. The Department should comply with the *Province of Nova Scotia Procurement Policy* and either subject these services to a competitive process or seek required approval for an exemption.

4.25 We did note DOH had signed contracts with home oxygen providers.

4.26 *Letters of understanding* – According to the Department of Health, in 2007-08, home support agencies were paid $83.5 million to provide home care services. Annually, the Department of Health and each home support agency sign a letter of understanding. These letters require service providers to deliver services in accordance with the client's approved service plan. However, the letters fail to address a number of key areas.

- Whether the agency has the capacity to fulfill service demands of the home care program
- No provisions for audits by this Office
- No dispute resolution mechanisms or termination clauses
- Lack of required reporting of clearly defined quality and performance expectations (as recommended in our 2002 Report)
- No requirement that service providers complete background checks on employees who visit clients' homes to provide services
- No requirement that service provider staff visiting clients have first aid and CPR certification

4.27 The Continuing Care Division did not have a system in place to monitor service provider compliance with the terms and conditions of contracts or letters of understanding. An appropriate monitoring system is necessary to ensure services are delivered to clients in an efficient manner, in accordance with Departmental requirements.

4.28 The lack of current contracts with certain service providers and lack of adequate provisions in letters of understanding with others, poses risks. For example, if service providers do not comply with DOH policies and procedures, there is a risk home care clients are not receiving a consistent level of service across the province. As well, the lack of established contract provisions and monitoring could make it difficult for DOH to require compliance and effectively manage service providers.

Recommendation 4.4

The Department of Health should sign contracts with all home care service providers. Contracts should include key provisions such as adherence to standards, audit access for the Auditor General, dispute resolution mechanisms or termination clauses, and performance reporting requirements.

Payments to Service Providers

4.29 *Conclusions and summary of observations* – We assessed the Department of Health's processes to ensure payments to home care service providers are properly approved. We concluded there are weaknesses in the payment system that contribute to an increased risk the Department will pay for services not provided or services provided to clients for whom DOH was not financially responsible.

4.30 *Budgets* – The Department of Health provided most nursing and home support agencies with an approved annual budget. Bi-weekly payments were made to the agencies throughout the year based on their approved budget. A few service providers billed DOH on a fee-for-service basis.

4.31 After year-end, those service providers funded based on a global budget were required to submit audited financial statements to DOH. Department staff reviewed the audited statements to determine why agencies incurred a surplus or deficit, based on an analysis of financial and non-financial information submitted by the service providers. DOH did not have a written policy regarding the treatment of surpluses or deficits incurred by home care service providers. However, in practice, DOH had generally recovered any surplus and paid any deficit since most agencies only provide services to DOH clients.

Recommendation 4.5

The Department of Health should develop a formal, written policy regarding the treatment of surpluses and deficits by service providers. This policy should be included in any contracts negotiated with service providers.

4.32 *Financial Reporting* – Financial information reported by home care agencies to the Department was generally appropriate and there was a review

and challenge process of the information provided. The Department received monthly comparisons of actual results to budgets with variance explanations, as well as forecast information. Monthly reporting also included operational statistics such as the number of direct and indirect service hours, number of cancelled visits, and a continuity of clients. We noted the VON was not required to provide this detailed information. Without such regular financial information, there is a risk the Department may not fully understand the costs of nursing services provided by the VON.

Recommendation 4.6
All service providers should be required to submit similar monthly reports.

4.33 *Allocation of costs* – Two service providers offered services to clients for whom DOH was not financially responsible (e.g. some clients pay for their own services). However, we noted there were no written agreements as to how costs were to be allocated to the Provincial Department of Health. In these instances, there is a risk DOH's global budgets for those agencies could be covering part of the cost for non-DOH clients. For one agency, the schedules which determine the allocation of costs to DOH are unaudited. This increases the risk that non-DOH costs could be allocated to, and paid by DOH.

Recommendation 4.7
The Department of Health should have written agreements with service providers stating how costs are to be allocated between DOH and other clients, and requiring an audited statement of allocated costs.

Current and Future Demand for Home Care Services

4.34 *Conclusions and summary of observations* – Our objective was to assess the Department of Health's processes to ensure service providers will have an adequate supply of trained professionals to meet current and future demands for home care services. We concluded some service providers experienced staff shortages due to an inability to recruit and retain trained professionals. We also concluded the Department had not determined the future demand for home care services. DOH does not know whether service providers will continue to have an adequate supply of trained professionals to provide home care services. Additionally, DOH has implemented initiatives to expand existing home care services. However, without knowing the future demand for home care, DOH has no way to ensure there will be an adequate supply of skilled workers to provide existing and expanded services without creating a surplus or deficit of these workers. There is a risk sufficient numbers of trained staff will not be available to provide the existing or expanded home care services in the future.

4.35 *Background* – The health care system in Nova Scotia is facing significant pressures.

- Nova Scotia has the oldest population in Atlantic Canada and the third oldest in Canada.
- Nova Scotians aged 65 and older make up the fastest growing segment of the population.
- Nova Scotians are living longer and the life expectancy for the average Nova Scotian is projected to increase.
- Nova Scotia has the second highest rate of diabetes in the county and the highest death rate in Canada from cancer and respiratory disease.

Source: Shaping the Future of Continuing Care in Nova Scotia

4.36 *Survey results* – We surveyed 25 service providers - the VON (nursing), 18 home care agencies and 6 home oxygen providers. We asked the service providers to identify key issues which affect their ability to meet current service demands. Results from our survey are as follows.

- 5 were unable to meet current demand for services
- 11 noted staffing shortages were impacting their ability to meet current service demands
- 13 were encountering difficulties recruiting and retaining staff
- 11 believed they would not be able to meet future demand for services

4.37 Service providers also noted a number of other concerns in their survey responses. These included: matching staff availability with client demands on a daily basis; providing services at the time requested by clients; increasing level of illness of clients; recruitment and retention of staff; and competition for staff from the acute and long-term care sectors.

4.38 *Department of Health strategies* – The Department of Health developed a number of strategies to address concerns with the capacity of the home care system. DOH hopes these strategies will help alleviate pressures in other areas of the health system. The Department's strategies include *Continuing Care Strategy for Nova Scotia: Shaping the Future of Continuing Care, Continuing Care Assistant (CCA) Recruitment and Retention Action Plan*, and an overall *Health Human Resources Action Plan*. During our audit we reviewed these documents to determine whether they considered the capacity of the home care system to meet future demand for services. Our results are detailed below.

4.39 The continuing care strategy included several projects to expand and improve services provided through the home care program. Although the

DOH Business Plan and Accountability Report provided information on these projects, the Department had not prepared an overall status report on the implementation of the continuing care strategy. A formal report on progress would provide useful information to the House of Assembly, DOH, and the general public.

Recommendation 4.8
The Department should prepare an overall status report on progress towards implementing the continuing care strategy.

4.40 The *CCA Recruitment and Retention Action Plan* identified issues which would impact current and future supply and demand, as well as barriers to CCA recruitment and retention. The plan also included recommendations to ensure an adequate supply of CCAs to meet the future needs of the health care system.

4.41 Finally, the *Health Human Resources Action Plan* is a first step in the development of a comprehensive health human resources strategy for the Province; however it does not address future demand for home care services.

4.42 *Future service demands not known* – At the time of our audit, the Department had not identified the expected future demand for home care services. Continuing Care Division management informed us they are working to determine future demand. A key factor that may limit the ability of DOH to meet future demand is the availability of health professionals; including continuing care assistants (CCAs) who provide many home care services. We were informed there are currently shortages of CCAs in several districts throughout the province. Once the future demand for services is known, the Department must then determine the numbers of various types of health professionals required.

Recommendation 4.9
The Department should identify the future demand for home care services and determine the level of various home care staff required to provide these services.

4.43 *Wait Times* – Waitlists are a key indicator of whether DOH is able to provide home care services to approved clients in a timely manner. Appropriate systems are needed to report wait times in a complete and timely manner. Prior to April 2007, waitlist information was generated for the home care program on an ad hoc basis by service providers. In April 2007, the Continuing Care Division implemented a wait time policy requiring waitlists be prepared in a geographical area when clients are waiting for service to commence two weeks beyond the response time standards established by the

Department. Service providers submitted manual wait time information to District offices because SEAscape, DOH's computerized assessment system for continuing care services, could not generate this information. Senior management of the Division was not provided with provincial wait time information on a regular basis. We were informed a project is being planned which will allow service providers to submit wait time statistics electronically to DOH (see paragraph 4.107).

4.44 During our audit, we reviewed a wait time report prepared manually from the reports submitted by service providers. This report showed the number of clients waiting for home care services increased from 467 clients in October 2006, to 527 clients in January 2008. The Annapolis Valley District Health Authority and the Capital Health District had the highest number of clients waiting for services. We did not audit the accuracy of these statistics.

Recommendation 4.10
The Continuing Care Division should either obtain or develop, and monitor province-wide wait time reports.

Service Provider Staff – Licensing, Certification and Background Checks

4.45 *Conclusions and summary of observations* – We assessed the processes used by service providers to ensure staff are licensed or certified and appropriate background checks completed. Our survey of a sample of service providers indicated they generally had appropriate hiring processes; however, we noted areas for improvement. We were concerned some home care staff did not have a criminal record check completed. Such background checks are important to allow service providers to identify individuals who are not suitable to provide home care services as they may pose an unacceptable risk to clients.

4.46 We surveyed 25 service providers to determine their hiring and personnel practices, as well as requirements for staff to have current licenses and first aid training. Survey results indicated:

- 21 service providers had documented procedures for the recruitment and selection of staff;
- 23 service providers verified at least two reference checks;
- 25 service providers verified at least one professional reference check; and
- 20 service providers performed a criminal record check.

4.47 We tested certain of these areas for service providers we visited during our audit; the results are detailed below. No further audit work was performed

on the remaining survey questions to verify the information provided in the surveys regarding hiring practices.

4.48 *Licensing or certification* – Home care services are provided by registered nurses, licensed practical nurses, respiratory therapists, home support workers and continuing care assistants. Standards for the qualification and training of licensed staff are established by their licensing body. Licensed staff must renew their license on a yearly basis and are required to maintain standards of care and conduct. Continuing care assistants are not licensed, however they must meet educational requirements established by the Department of Health.

4.49 Our survey of 25 service providers indicated 23 required staff provide a copy of their license following annual renewal. Service providers told us there are processes to inform them if a staff member's license was revoked. Survey responses also indicated service providers have processes to follow up with the employee if a copy of the license is not provided.

4.50 We selected a sample of 50 service provider employee files and tested for evidence of the employee's current license, to verify required reference and background checks were completed and to determine whether employees had current first aid and CPR training. These employees provided services to clients residing in Capital Health and Colchester East Hants District Health Authority. Details of our testing follow.

4.51 All 50 staff tested were licensed or certified.

4.52 We expected service provider staff to have current first aid and CPR certification in case of an emergency. 24 of the 25 service providers surveyed indicated their employees are required to have first aid and CPR certification. 24 service providers noted they verify this information. Service providers have various systems in place to monitor the status of their employees' certification, and several provide training. During our testing, we noted 11 of 50 instances where staff did not have current first aid certification at the time services were provided to the clients we selected. We also noted 5 instances where staff did not have current CPR certification.

4.53 *Testing of employee files* – During our testing of the 50 employee files, we noted the following with respect to reference and background checks.

- Fourteen employees did not have the required two reference checks on file. One reference check was noted in 6 of those instances, while the remaining 8 employees had no reference checks.
- We could not determine whether reference checks were obtained for 5 employees.

- There were 8 instances where no professional reference check was obtained or we could not determine if a professional reference check was obtained.
- There were 5 instances where we could not determine the qualifications of the persons providing the professional reference check.

4.54 The Department of Health has certain hiring practices service providers must follow. We noted these do not include all the areas we tested. For example, DOH does not require service providers obtain professional reference checks for new employees. Processes, such as inspections by Continuing Care Division staff, would help ensure all service providers follow Department requirements.

Recommendation 4.11
The Department should revise the hiring practice requirements service providers must follow. Appropriate processes should be developed to monitor these requirements.

4.55 *Background checks* – Certain individuals may not be suitable to provide home care services because they may pose an unacceptable risk to clients. 20 of the 25 service providers surveyed require a criminal record check on successful job applicants. Only 10 of the service providers performed criminal record checks on employees who were hired before they implemented their criminal record check policy. 22 of the 50 employees tested had not had a criminal record check. 12 of 25 service providers we surveyed indicated they do not periodically update employee criminal record checks subsequent to hiring; 10 informed us they update such checks from time to time; and 3 did not respond to the survey question. We did not verify the accuracy of these survey comments.

4.56 We are concerned there are home care service provider staff who have not been subject to a criminal record check and others whose checks are outdated. We believe it is important that DOH ensure home care service providers have adequate hiring practices, including background checks.

Recommendation 4.12
The Department should require service providers to complete criminal record checks on all successful job applicants. The Department should work with the service providers to assess the risk of not completing periodic record checks subsequent to hiring and use the results of the risk assessment to determine the frequency of rechecks.

Assessment & Reassessment

4.57 *Conclusions and summary of observations* – We reviewed compliance with and the adequacy of the processes and policies used by the Department for the assessment and reassessment of home care clients. We concluded that existing policies and procedures need strengthening. Further, there were instances in which we could not determine whether processes and policies were followed due to a lack of supporting documentation. DOH district office staff informed us they believe many of the Department's home care policies are guidelines only, and are therefore optional. Policies ensure individuals requesting services are prioritized for assessment based on their needs, an appropriate service plan is developed, and regular reassessments are completed. We were concerned by the departures from established policies we noted during our audit. This could lead to delays in the assessment and reassessment of clients and the preparation of incomplete or inappropriate service plans. Delays in the assessment or reassessment of clients could adversely affect the health of clients. We made several recommendations for improvement which should be addressed by the Department.

4.58 *Background* – Nova Scotia utilizes a single entry access system for all continuing care services. This means prospective home care or long-term care clients call the same phone number to access services. DOH intake staff receive these calls and obtain required information from individuals requesting services. Client information is entered in DOH's continuing care information system – SEAscape.

Policies and procedures

4.59 Policies and procedures for the intake, assessment and reassessment of clients are not contained in a single policy manual. The Continuing Care Division has two principal documents - the Home Care Policy and Procedure Manual (1997) and the SEAscape Procedures Manual (2007).

4.60 The Home Care Policy and Procedure Manual specifies the overall policies and procedures for the home care program. Over the 10 years since its release, directives have been issued to supersede certain sections of the Manual. However, these new policies have not been formally incorporated into the Manual. This has resulted in multiple policies for certain issues, and confusion for staff regarding which policies to follow. All policies and procedures relating to the home care program should be updated and consolidated into one manual to eliminate inconsistencies and ensure ready access by staff.

4.61 The SEAscape Procedures Manual directs staff in the use of SEAscape for case management purposes. However, district office staff indicated that they believe many of these policies and procedures are only guidelines and

therefore optional. Failure to follow established policies could result in inconsistencies in the assessment and reassessment of clients. There is a risk services provided to clients may vary from one area of the province to another or from one care coordinator to the next.

Recommendation 4.13
The Continuing Care Division should update and consolidate all home care policies and procedures into one document. This document should distinguish between guidelines and required policies.

4.62 The standards which home care service providers are required to follow are included in two documents: *Standards for Quality Services – Home Care* (1999) and *Standards for Quality Care – Home Oxygen Clients* (2006). We noted instances where standards were missing or were not updated to reflect program changes. For example; there are no requirements for professional reference checks at the time an employee is hired; or requirements for first aid and CPR certification.

Recommendation 4.14
The Department should update documents detailing standards of care service providers must follow.

Client File Testing

4.63 We selected a sample of 50 home care clients residing in Capital Health and Colchester East Hants District Health Authority. We wanted to determine whether DOH processes and policies were followed throughout the intake, assessment and reassessment processes for these clients. Our findings are as follows.

4.64 For most prospective home care clients, intake staff complete a priority assessment tool. This tool provides a consistent method to determine the time frame in which the client should be assessed by a care coordinator.

4.65 Of the 50 home care clients tested, 15 were required to be assessed using the priority assessment tool. This assessment was not completed for 6 of these 15 clients. In 4 of the remaining 9 cases, although the tool was completed, the subsequent assessments were not completed within the time frames established by the priority assessment tool. We were informed the priority assessment tool must be completed, but the results can be overridden by a care coordinator's professional judgment. This means the care coordinator can decide that the priority assessment tool does not need to be completed, or that the prospective home care client should be visited sooner or can wait longer than the priority assessment tool indicated. We found no formally documented policy to support this statement.

Recommendation 4.15
The Department of Health should formally document the policy detailing when professional judgment may be substituted for priority assessment tool completion or response time standards. The reasons for any deviations from the priority assessment tool should be documented in the client's file.

4.66 After a home care client's initial contact with intake staff over the phone, a detailed in-home assessment is completed by a care coordinator using a standardized, comprehensive assessment tool. This tool provides care coordinators with the information needed to make decisions on the types and frequency of care the client requires.

4.67 Service decisions are communicated and discussed with clients on completion of an in-home assessment. We were informed that care coordinators obtain the client's consent to service during the initial visit. However, we were not able to verify this statement because all information is conveyed to the client verbally. A written document describing the home care services to be provided, the client's right to appeal decisions of the care coordinator, and other possible concerns would provide a better record of what was discussed and help reduce confusion over approved services.

Recommendation 4.16
A signed client consent form should be obtained from clients when they are initially approved for service.

4.68 As indicated earlier, we identified a number of documents containing policies and procedures to be followed during the assessment of clients and the determination of client eligibility for home care services. During our testing of the 50 home care client files selected, we noted staff were not consistently following Department policies and procedures for the assessment of clients. Non-compliance could result in inaccurate assessments of client needs and put home care service provider staff at risk during their visits. Details of our findings follow. Note that not all forms or procedures were required for all clients tested.

- We could not determine if intake staff informed care coordinators of the need for an assessment for 16 of 27 new clients.
- We noted 3 of 32 instances where the pre-visit risk assessment form was not completed or was only partially completed.
- We could not determine if an in-home assessment was completed for 9 of 39 clients as there was no documentation that a home visit occurred.
- The appropriate assessment tool was not completed for 4 of 50 clients.
- The assessment tool was incomplete for 2 of 39 clients.

- As a client assessment is completed, the assessment tool identifies areas for further inquiry. In 8 of 38 instances, not all identified inquiry areas were addressed. In 3 of these instances, none of the identified inquiry areas were addressed.

- For 6 of 50 clients, we could not determine if the client's environment was assessed as being safe and suitable for the provision of home care services because the home safety assessment was not documented by DOH staff.

- There were 12 of 50 instances where required documents were incomplete.

- In a further 13 of 50 instances, various required documents could not be located in the client's files.

4.69 We also selected a sample of 20 individuals who were denied service. In one instance we could not determine if the potential client was appropriately denied service as reasons for the denial were not documented. We did not note any findings with the remaining 19 denials we tested.

Service Plans

4.70 A service plan is used to authorize any home care service. Service plans provide information on the type of service, frequency, duration, and cost; and are recorded in the SEAscape system.

4.71 Department policy requires assessments be locked within three business days from when they are started. Service plans must be locked upon completion to prevent subsequent alterations. Once the service plan is completed, care coordinators fax the assessment, service plan and other documents to the service providers.

4.72 *Service plan testing* – We tested 50 home care client service plans. We identified instances where service plans were not fully completed, or sent to the service providers on a timely basis. This could result in delays in starting services or clients receiving inappropriate services. We also noted numerous instances where we were unable to determine whether service plans and other documents were sent to the service providers, or whether they were sent in a timely manner.

- For 9 of 50 clients, service plans were not locked on a timely basis.

- For 8 of 38 clients, electronic assessments were not locked within three business days as required by Department policy. The remaining 12 clients required paper-based assessments so this procedure was not relevant.

- In 2 of 50 instances, a service plan was not created.

- In 2 of 50 instances, the service plan was incomplete.
- Service plans for 3 of 47 home support or nursing clients were not sent to the service providers on a timely basis. The remaining 3 clients received solely home oxygen services. In these instances, home oxygen is provided based on a physician's orders.
- For 2 of 50 clients, other required documents were not sent to service providers on a timely basis.

4.73 *Reassessment* – Continuing Care Division policy requires care coordinators perform an annual reassessment of their home care clients. The policy states the purpose of the reassessment is to review the client's situation and condition, evaluate his or her progress, and to adjust services received where desired outcomes were met. The next reassessment date is to be noted in SEAscape when each assessment or reassessment is recorded.

4.74 For the 50 home care client files tested, we determined whether a reassessment was scheduled and, where applicable, whether the most recent reassessment required was completed. Note that 27 of the clients we tested had recently undergone an initial assessment and therefore, would not have required a reassessment at the time of our testing. We identified instances where reassessments were not properly scheduled and instances where reassessments were completed late. These situations could result in delays identifying required changes in services provided to clients. Our observations follow.

- For 20 of 50 clients, the next reassessment date was either not updated, not entered in SEAscape, or entered for a date more than one year in the future.
- Reassessments were not completed by the scheduled date for 9 of the 23 clients who required a reassessment.
- For 8 of the 23 clients who required a reassessment, we could not determine whether the reassessment took place prior to the required date because the reassessments were not scheduled in SEAscape, or the scheduled date was not valid.
- 21 of 50 clients were reassessed from 1 to 14 months late. Of these 21 clients, 10 went more than one year without a reassessment on two occasions.

4.75 In addition to the assessment and annual reassessment by care coordinators, service providers are required to submit a written progress note for new clients after three and six months, and annual progress notes for all clients. Progress notes provide written communication between the home care agency and the care coordinator detailing areas of interest such as method of service delivery, current client needs, and progress towards goals.

4.76 For the 50 home care client files tested, we noted instances where progress notes were late or not prepared. This could result in delays in the reassessment of clients or delays in required service changes. We noted:

- Three month progress notes were not prepared for 5 of 24 clients.
- There were no six month progress notes for 2 of 20 clients.
- For 5 of 38 clients, annual progress notes were submitted late.

4.77 *Assessment and reassessment of clients: home oxygen* – The Department has specific policies and procedures concerning the provision of services under the home oxygen program. We tested six home oxygen client files to determine if policies related to home oxygen program assessment and reassessment were followed.

- For 2 of 6 clients, there was no indication that the home oxygen provider or the care coordinator had assessed the safety and suitability of the client's home for provision of home oxygen services.
- In 3 instances, the funding authorization form was not completed or was not fully completed.
- Home oxygen providers are required to submit a written assessment once every 3 months during the first year of service and bi-annually thereafter. We noted 3 instances where bi-annual assessments were not submitted as required.
- In 3 instances, the written assessment received by DOH from the home oxygen provider did not include the actual hours of oxygen used.
- For 3 of 6 clients, the annual reassessment by the Care Coordinator was not completed by the required date.

4.78 *Testing of service appeals and refusals* – An applicant can request an administrative review of the type or frequency of services offered or a denial of requested services. The Continuing Care Division has a written policy documenting the review process and timelines.

4.79 We tested a sample of five appeals and noted instances where policy requirements were either not followed or we were unable to determine whether the policy was followed. This is an area where a file completion checklist could help ensure all policies and procedures are considered and documented.

Provision of Authorized Services

4.80 *Conclusions and summary of observations* – We reviewed the processes in place to ensure authorized services were provided in accordance with client

service plans. There was insufficient information in client files to conclude whether services were approved and provided for all clients tested. We were unable to conclude if services requested by the Department were started by service providers on a timely basis. We were also unable to conclude whether services were provided in accordance with approved DOH client service plans. We encountered instances where service plans were not available for audit purposes. We also encountered instances where certain information on service provider visits to client homes was not available for audit purposes. Our audit did not include an assessment of whether the instances of non-compliance identified affected client care as this would require an assessment by trained medical staff.

4.81 *Testing of client files* – As indicated earlier in this Chapter, we selected a sample of 50 clients from Capital Health and Colchester East Hants District Health Authority. Of these 50 clients, 3 received home oxygen services only, 45 received nursing or home support services or both, and 2 received both home support and home oxygen services. For all sample items, we reviewed the client files at relevant service providers which included the VON, five home care agencies and three home oxygen providers. We wanted to determine whether services were provided in accordance with the client care plans. The results of our testing are detailed below.

4.82 *Service start date* – Services for new clients should be implemented as soon as possible following authorization by the Department of Health. However, the Department does not have appropriate processes in place to monitor and ensure services are started by service providers in a timely manner. The Department does not consistently record the actual service start date in SEAscape nor does it document why there are delays in the start of service. Of 50 homecare clients, 16 began receiving services prior to the period covered by our audit. Of the remaining 34, we noted 10 instances in which the service start date was not recorded in SEAscape and we were not able to determine the time from authorization to start of services. For the remaining 24, we noted 9 instances where services were not implemented in a timely fashion. Delays ranged from 1 day for a nursing client, and from 22 to 105 days for home care clients. Monitoring of such delays would provide DOH with important information on service delivery and possible risks to clients. Delays in the start date of home care services could result in nursing care clients not receiving required medical treatment or home support clients not receiving services such as personal care and meals that they require in order to live independently in their home.

Recommendation 4.17
The Department should record the service start date for new clients in SEAscape. Reasons for any delay in service start dates should be documented.

4.83 As noted earlier in this Chapter, DOH uses service plans to detail the frequency, type, and duration of services each client is authorized to receive. Service providers typically prepare their own service plan from the information contained in the Department's plan. Service providers are responsible to ensure their plans accurately reflect the services authorized by DOH. In our review of 46 client files at home support or nursing agencies, we noted instances where there was no copy of the DOH care plan on file. We also noted instances where there were differences between DOH's service plan and the plan subsequently prepared by the service provider. Our detailed findings follow.

- In 4 of 46 instances, the service provider agency did not have a copy of the DOH service plan.
- For 9 of 46 clients, the services listed on the agency plan did not agree with the approved services on the DOH service plan. It was beyond the scope of our audit to determine if the changes made to the client's care plan by service provider staff were appropriate.
- For 14 of 46 clients, we were unable to determine whether the services on the DOH and agency service plans matched. In 9 of those instances we could not review the historic service plans of the agency because only the most recent DOH service plan was retained.

4.84 We also compared the services listed on the agency service plan to the actual care provided as documented in the client's file. We noted differences between the agency service plan and the services provided. We also noted discrepancies in the number of days of service provided. In these instances, clients may not being receiving services authorized by the Department and the frequency of services provided may be inappropriate. Our detailed findings are as follows.

- For 6 of 46 clients, there were differences between the agency service plan and the actual services provided as recorded in the client's file. It was beyond the scope of our audit to determine whether the services actually provided were appropriate.
- We noted 7 of 46 clients where the number of days services were delivered by agency staff did not agree to the number of days authorized by DOH. Service providers were unable to explain these discrepancies.
- For 5 of 46 clients, service provider staff had not signed the file to indicate the authorized services were provided.
- For 18 of 46 clients, the agencies were not able to provide us with a record of services provided. These records were maintained in the clients' homes. Our audit testing did not include a review of files in client homes. In these cases, we examined documentation indicating that agency staff

visited the clients; however, we were unable to determine what services were provided.

4.85 Finally, we tested services provided under the home oxygen program. For six home oxygen client files tested, documentation on file indicated the required services were provided to these clients.

4.86 Given the problems we experienced in testing services provided to clients, we were concerned that the Department of Health would not be able to verify services were provided according to DOH approved service plans. There is a need for DOH and service providers to clearly define what records must be maintained by service providers to document that services to clients are provided in accordance with DOH service plans.

Recommendation 4.18
The Department and service providers should define what records must be maintained by service providers to document services provided to home care clients.

4.87 *Quality assurance of assessment and reassessment decisions* – The Department does not have a formal quality assurance system. In our 1996 Report we observed there was an informal peer review system which allowed care coordinators to receive feedback as to the appropriateness of their assessments. We believe the Department should have a formal quality assurance process to provide assurance that Department policies, procedures and timelines are followed.

4.88 Our testing of home care client files indicated numerous instances where processes, policies, and timelines were not followed. Requirements such as policies help to ensure all clients are treated consistently and fairly. Implementation of a file checklist would assist DOH in ensuring processes, policies and timelines were followed.

Recommendation 4.19
The Continuing Care Division should implement a quality assurance process to ensure appropriate assessment decisions are made, policies and procedures followed, and appropriately documented.

4.89 There is also a need for the Department of Health to implement appropriate processes, such as regular agency inspections, to ensure service providers are following Department standards and clients are receiving all approved services. See paragraphs 4.109 - 4.112 for further information on the inspection process.

Complaint Process

4.90 *Conclusions and summary of observations* – We assessed the systems used by the Department to investigate complaints made by clients and individuals. We concluded the Department does not have formal processes or policies to investigate complaints. DOH does not maintain information on complaints in a readily accessible manner. As a result, we were unable to determine the extent to which the Department investigates complaints. An effective complaint system is an important control to ensure the concerns of clients are investigated and resolved on a timely basis. DOH needs to establish a formal system to record and track complaints and their ultimate resolution.

4.91 We surveyed home care service provider agencies to determine if they have systems to record and investigate complaints. We were informed the service providers have such systems in place. We tested the systems in three service providers and identified areas for improvement. We express no opinion regarding the complaints systems of the remaining service providers we surveyed as we did not complete testing at all agencies.

4.92 *DOH complaint process* – DOH does not have policies and procedures regarding the investigation of complaints by home care clients. Continuing Care Division staff informed us they forward complaints to service providers for investigation and resolution. If the service provider is unable to resolve the complaint it is forwarded to DOH staff for further investigation and resolution.

4.93 DOH does not maintain a centralized record of complaints received or their disposition. As a result, we did not perform any testing of complaints received by the Department because staff could not provide us with a list of complaints which had been received and investigated. Department policy requires that home care service providers maintain records of complaints received; however, this information is not submitted to DOH. A complete record of complaints would provide DOH with an opportunity to analyze patterns and trends or identify areas for further investigation.

Recommendation 4.20
The Department of Health should maintain a centralized record of complaints received and their disposition.

4.94 Monitoring and evaluation staff in the Continuing Care Division are responsible for the investigation of complaints from long-term care clients. However, their role in home care client complaints has not been defined. DOH must determine which staff member or group is responsible for

home care complaint investigation, ensure there are written policies and procedures detailing the process to be followed, and ensure appropriate complaint resolution.

4.95 DOH does have documented standards which service providers are to follow when investigating complaints. However the Department does not have any processes in place to ensure service providers comply with those standards. A periodic inspection of service providers by DOH would help ensure these agencies have appropriate complaints processes and that these processes are followed.

Recommendation 4.21
The Department of Health should develop written policies concerning the complaints process for home care clients to ensure complaints are appropriately resolved. The role of the Department and its service providers in complaint investigation and resolution should be clearly documented.

4.96 *Service provider complaint process* – We surveyed 25 home care service providers and noted the following.

- 24 service providers had policies and procedures concerning the complaints process
- 21 service providers maintained complaint files
- 12 service providers logged and tracked complaints in a database while the remaining 13 did not have such processes
- 20 service providers had timelines for the complaints process

4.97 We selected a sample of 10 complaints investigated by three service providers. There was documentation on file which indicated managers or supervisors investigated the complaints. DOH requires complaints be investigated within five days. In two instances we could not determine if this standard was met. There was one instance where it took two weeks to investigate a compliant.

4.98 *Appeals process* – While 12 of 25 service providers surveyed stated they have a formal appeals process, the Department of Health did not have such a process. A formal appeals process should be implemented to ensure complaints received have been dealt with appropriately.

Recommendation 4.22
The Department should implement a formal appeals process regarding decisions made in the investigation of complaints.

Performance Information

4.99 *Conclusions and summary of observations* – We assessed the adequacy of performance information prepared and reported for the home care program to senior management of the Continuing Care Division and to the House of Assembly. We concluded that performance and statistical information reported to senior management of the Division was inadequate to enable ongoing monitoring of the home care program. At the time of our audit, there were no performance measures, including targets, reported for the home care program. The department was not able to produce reliable statistics such as the number and location of home care clients in the Province. Additional performance measures are needed to ensure the Continuing Care Division has the necessary information to manage the home care program. We concluded the House of Assembly was provided with appropriate information on the home care program in the Business Plan and Accountability Report of the Department of Health.

4.100 *Management information systems* – DOH assesses all applicants for home care services using a computerized assessment system known as SEAscape. The Department plans to implement a redesigned web-based system to address existing deficiencies and meet the future requirements of the home care program. Currently, senior management and supervisory staff of the Continuing Care Division are not receiving any monthly or quarterly statistical or performance reports generated from SEAscape. During our audit we were unable to obtain basic statistical information such as the number of clients and the number of clients per district health authority. A working group has been established to identify and prioritize which reports should be generated and how frequently. This process includes an assessment to clearly define the information requirements of senior management and supervisory staff.

Recommendation 4.23
Senior management of the Division should ensure the proposed statistical and performance reports from SEAscape are appropriate for their needs and implement necessary changes so these reports can be generated.

4.101 One of the components of SEAscape is a clinical assessment tool. This tool can generate quality indicators which can be used to monitor changes over time with home care service providers or to benchmark one home care agency against another with the goal of identifying opportunities for improvement in care provided. Quality indicators are currently not used due to limitations in the SEAscape system.

Recommendation 4.24
The Department should develop a system to generate and monitor quality indicators using either the existing assessment tool, or another method.

4.102 *Performance indicators* – The Department's 2006-07 Business Plan and Accountability Report reported only one performance indicator for the home care program. In our opinion, the performance indicator reported, the percentage of the population receiving home care services, is a statistic, and not a performance indicator.

4.103 The Department developed new performance indicators for the home care program. These performance indicators were described in the 2008-09 Business Plan and will be reported in the Accountability Report of the Department for that year. The Department is now reporting the total number of direct service hours for nursing and home support services. A baseline target as well as targets for subsequent years has been established. The previous performance indicator, the percentage of the population receiving homemaker, nursing or respite services, is no longer reported as the Department is not accountable for the provision of private home care services.

4.104 Additional performance indicators are necessary to sufficiently measure all aspects of program performance. For example, home care providers are required to perform client satisfaction surveys. Summarizing the results of these surveys would provide useful information on how clients feel about the quality of services being provided.

Recommendation 4.25
The Department should develop additional performance indicators, with established targets, to measure all aspects of the home care program.

4.105 *Hours of service* – DOH has established guidelines regarding the time required to complete certain home care services, excluding nursing care. Continuing care management informed us guidelines were not developed for nursing services as the time to complete these services can vary based upon the client's condition and needs. Despite this, many hospitals utilize systems which assign specific time requirements to tasks when scheduling staff.

4.106 We were informed by DOH that there is a need to update the guidelines for non-nursing services; however, the Continuing Care Division has no specific plans to perform this update.

Recommendation 4.26

The Department of Health should update guidelines for time required to complete home care services. This update should include a review of whether it is feasible to establish such guidelines for nursing care delivered to home care clients.

4.107 At the time of our audit, there was no reporting system to allow service providers to report actual hours of service per client to the Continuing Care Division. Continuing Care management informed us a project is currently underway to implement such a reporting system. This information is key to ensure clients are receiving approved services according to their care plan. It could also be used by DOH in performance reporting for the home care program and to monitor service providers.

Recommendation 4.27

The Department of Health should move forward with a system to allow effective reporting of actual hours of service by home care service providers.

4.108 *Business Plan and Accountability Report* – Government departments are required to prepare annual business plans and accountability reports using guidelines issued by Treasury and Policy Board. As discussed in paragraph 4.39, the Department is implementing a continuing care strategy which includes several projects to expand and improve services provided under the home care program. We reviewed the Department of Health's 2006-07 Business Plan and Accountability Report and noted information was provided on the continuing care program, including information on implementing the continuing care strategy. These documents are publically available on the Department's website to members of the House of Assembly and the general public.

Inspection Process

4.109 The existence of a properly functioning inspection process is a key control required to ensure home care agencies are providing services to clients in accordance with approved care plans, and that DOH requirements are being met.

4.110 DOH inspections of home care providers were last conducted in 2005. DOH management informed us inspection activity has focused on nursing homes and the investigation of complaints under the Protection of Persons in Care Act. At the time of our audit, fieldwork for the inspection of one home care agency had been completed; however, the inspection report was outstanding.

4.111 In our 1996 and 2002 Reports we made several recommendations to strengthen the inspection process. We were informed none of these

recommendations have been implemented. However, Department management indicated it will consider our previous recommendations when the inspection process is revised. Key recommendations made in these Reports include the need:

- to develop and implement a plan for agency audits;
- to assess the objectives, associated risks and resources, for agency audits;
- to update the inspection tool to provide guidelines for the number of client and personnel files to be examined during the inspection;
- to require documentation be examined for completeness and accuracy; and
- to examine whether services provided were appropriate.

4.112 We were concerned with the lack of action taken by the Department to implement recommendations made over 12 years ago. An effective inspection process is the vital to ensure clients are receiving the services requested by the Department and that the agencies are adhering to Department standards and policies.

Recommendation 4.28
The Department of Health should review and improve the inspection process by developing an audit plan, assessing the objectives, risks and resources required for these audits, providing guidelines for the number of client and personnel files to be examined; requiring documentation be examined for completeness, and require an examination as to whether services provided were appropriate.

Appendix I

1996 and 2002 Auditor General Recommendations Not Addressed to Date

1996 Report of the Auditor General, Chapter 7

Recommendation Not Complete
We recommend that the current contract rates for VON/MHHC contracts be reviewed to ensure they provide the most economical means of obtaining nursing services.
We recommend that the hourly rate for the home support component of the resource allocation plans be reviewed in detail to ensure it properly reflects the cost of providing home support services.
We recommend the letter provided to home support agencies indicating budget allocation for the year require adherence to Home Care Nova Scotia policies and procedures and contain an audit provision. This feature should be incorporated into any agreements with service providers.
We recommend that the Department explore other options for delivery and funding of home support services to determine if costs can be reduced.
We recommend that contracts with service providers include a provision for agency audits and that Home Care Nova Scotia obtain the proper authority.
We recommend that agency audits examine whether: - services provided were appropriate; - services were provided by the most cost effective service provider; - volunteer and family resources were used to their full extent; and - agencies utilized funds with due regard to economy and efficiency.
We recommend that the agency auditing tool: - provide guidelines for the number of client and personnel files to be examined during the audit.; - require that the documentation be examined for completeness and accuracy; - reword the standard finance standards which *"requires the auditor to ensure all services billed to Home Care Nova Scotia have been provided by employees of the agency; all services invoiced have been provided; and that the agency complies with Home Care Nova Scotia program guidelines and its contractual obligations or funding agreements in connection with the submission of invoices"* so that it is applicable to home support agencies as well.
We recommend that outcome measures be developed and reported for Home Care Nova Scotia.
Do Not Intend to Implement Recommendation
We recommend that the Department of Health perform a comprehensive analysis of the potential liability associated with risks for the Department and service providers, develop strategies for minimizing the risks, or analyze costs and benefits of insurance coverage and self-insurance.
We recommend the peer review system be formalized and include a periodic review of selected care plans to ensure the appropriate service provider has been authorized, and to ensure volunteer services have been appropriately considered.

Appendix I

1996 and 2002 Auditor General Recommendations Not Addressed to Date

2002 Report of the Auditor General, Chapter 10

Recommendation Not Complete
We recommend that the Department of Health prepare strategic and operational plans for Home Care Nova Scotia to ensure a common understanding of future direction, and to serve as a guide for HCNS management.
We recommend that the Department of Health, in conjunction with implementation of its new home support agency funding guidelines, review controls over funding to home support agencies. The controls should be sufficient to ensure that payments are made only for authorized services.
We recommend that the Department of Health review the arrangements for acquisition of nursing and home support services for Home Care Nova Scotia. The Department should also determine whether future contracts should be Province-wide or whether each DHA should have responsibility for its own arrangement.
We recommend that the Department should comply with the Government Procurement Policy and either subject these services to a competitive process, or seek the required approval for an exemption.
We recommend that contracts should include clearly-defined performance expectations and require reporting of achievement.
We recommend that the Department of Health assess its objectives for agency audits, the associated risks, and resources available. The Department of Health should develop and implement a plan for agency audits.
We recommend that the Department of Health include client fees and collection practices in the scope of its agency audits.
We recommend the Department develop new legislation to replace the Coordinated Home Care Act and Homemakers' Services Act that are over 12 year old and are no longer relevant because of program changes.
We recommend that the Department negotiate a new contract with VON Nova Scotia for the provision of nursing services.
We recommend that the Department establish quality and performance expectations for each service provider. The service providers' results against expectations should be assessed prior to contract renewal.
Do Not Intend to Implement Recommendation
We recommend that the Department perform regular comparisons of the full costs of home support and oxygen services to the fee schedule to ensure that the charge is appropriate.

Response: Department of Health

Following are the list of recommendations made by the Office of the Auditor General on the completion of their 2007-08 Home care audit, and the accompanying responses from the Continuing Care Branch, Nova Scotia Department of Health. The Continuing Care Branch agrees with all recommendations and will endeavour to carry out each recommendation within the capacity of available resources, and direction and approval of the Minister of Health, Cabinet and the government of Nova Scotia.

Recommendation 4.1
The home care program should not be devolved to the DHAs/IWK until an action plan has been prepared to address the recommendations made in this chapter and prior audits by our Office.

4.1 Response: DoH accepts this recommendation and will endeavour to develop action plan, prior to integration, to address the recommendations made in this chapter and prior audits by the Office of the Auditor General.

Recommendation 4.2
The Department of Health, in partnership with Executive Council, should update and consolidate the Coordinated Home Care Act and Homemaker's Services Act.

4.2 Response: The Department agrees with this recommendation in principle and will pursue appropriate new legislation for the Home Care Program through the Government legislative process.

Recommendation 4.3
The Department of Health should review arrangements for the acquisition of nursing and home support services. The Department should comply with the Province of Nova Scotia Procurement Policy and either subject these services to a competitive process or seek required approval for an exemption.

4.3 Response: DoH agrees with the recommendation to comply with the Nova Scotia Government Procurement Policy and either subject nursing and home support services to a competitive process or seek required approval for an exemption. DoH will review current arrangements for the acquisition of these services with consideration of the impact on such arrangements post integration.

Recommendation 4.4
The Department of Health should sign contracts with all home care service providers. Contracts should include key provisions such as adherence to standards, audit access for the Auditor General, dispute resolution mechanisms or termination clauses, and performance reporting requirements.

4.4 Response: DoH concurs with this recommendation. Currently a contract that includes key provisions such as adherence to standards, audit access for the Auditor General, dispute resolution mechanisms or termination clauses and performance reporting requirements, is in the final stages of development with one of the larger providers with plans to be signed by December 2008. An action plan will be developed prior to integration, to develop and sign similar contracts with all home care providers.

Recommendation 4.5
The Department of Health should develop a formal, written policy regarding the treatment of surpluses and deficits by service providers. This policy should be included in any contracts negotiated with service providers.

4.5 Response: DoH concurs with this recommendation and, prior to integration will formalize in writing the policy regarding the treatment of surpluses and deficits by service providers. This policy will be included in any contracts negotiated with service providers.

Recommendation 4.6
All service providers should be required to submit similar monthly reports.

4.6 Response: DoH concurs with this recommendation and will action a plan to require all service providers to submit similar monthly reports.

Recommendation 4.7
The Department of Health should have written agreements with service providers stating how costs are to be allocated between DOH and other clients, and requiring an audited statement of allocated costs.

4.7 Response: DoH agrees with this recommendation and will action a plan to have written agreements with service providers stating how costs are to be allocated between DOH and other clients. The agreements will include a requirement for an audited statement of allocated costs.

Recommendation 4.8
The Department should prepare an overall status report on progress towards implementing the continuing care strategy.

4.8 Response: DoH concurs with this recommendation. Currently the progress towards implementing the Continuing Care Strategy is regularly tracked with progress provided to senior management of DoH, DHA and to Cabinet. These reports will be further developed to provide an overall status report to all interested parties along with an action plan to make this information both regularly and readily available to Nova Scotians before fiscal year end 2009.

Recommendation 4.9

The Department should identify the future demand for home care services and determine the level of various home care staff required to provide these services.

4.9 Response: DOH accepts this recommendation and will build on current activities to develop a plan to identify the future demand for home care services and determine the level of various home care staff required to provide these staff.

Recommendation 4.10

The Continuing Care Division should either obtain or develop, and monitor province-wide wait time reports.

4.10 Response: DoH agrees with the recommendation to generate and monitor province-wide home care wait time reports. The Continuing Care division has been consulting with the care providers on a home care reporting system project to develop an automated system for regular reporting of service start times and home care wait-times. The timeline for this project has been extended due to limited resources and other competing projects, including integration. Continuing Care Branch will work with other branches of the department, as well as the Home Care agencies and the DHAs, to develop an action plan prior to integration, to obtain or develop and monitor province-wide wait time reports for homecare.

Recommendation 4.11

The Department should revise the hiring practice requirements service providers must follow. Appropriate processes should be developed to monitor these requirements.

4.11 Response: DoH accepts this recommendation and will develop an action plan in consultation with the service providers to review and revise the hiring practices requirements to which the service providers must adhere, and include a method of monitoring adherence to requirements.

Recommendation 4.12

The Department should require service providers to complete criminal record checks on all successful job applicants. The Department should work with the service providers to assess the risk of not completing periodic record checks subsequent to hiring and use the results of the risk assessment to determine the frequency of rechecks.

4.12 Response: DoH concurs with this recommendation to require service providers to complete criminal record checks on all successful job applicants and will work with service providers to assess the risk of not completing periodic record checks subsequent to hiring, to determine the frequency of the rechecks. This recommendation is supported by the current accepted requirement for all CCA students to be able to successfully pass a criminal record check before being accepted into the CCA program and able to work in home care.

Recommendation 4.13
The Continuing Care Division should update and consolidate all home care policies and procedures into one document. This document should distinguish between guidelines and required policies.

4.13 Response: DoH accepts this recommendation to update and consolidate all applicable home care policies and procedures into one document and the process has already been initiated. It is intended that this document will clearly identify any instances where practices are intended as guidelines only versus required policies that must be followed.

Recommendation 4.14
The Department should update documents detailing standards of care service providers must follow.

4.14 Response: DoH concurs with this recommendation and has initiated a plan to update documents detailing standards of care service providers must follow.

Recommendation 4.15
The Department of Health should formally document the policy detailing when professional judgment may be substituted for priority assessment tool completion or response time standards. The reasons for any deviations from the priority assessment tool should be documented in the client's file.

4.15 Response: DoH concurs with this recommendation and will develop an action plan to formally document the policy detailing when professional judgment may be substituted for priority assessment tool completion or response time standards. This policy will require documentation in the client's file of the reasons for any deviations from the priority assessment tool.

Recommendation 4.16
A signed client consent form should be obtained from clients when they are initially approved for service.

4.16 Response: DoH concurs with this recommendation. Current practice regarding client consent will be evaluated to inform the development of a policy that requires a signed client consent form be consistently obtained from clients when they are initially approved for service.

Recommendation 4.17
The Department should record the service start date for new clients in SEAscape. Reasons for any delay in service start dates should be documented.

4.17 Response: DoH concurs with this recommendation. SEAscape has the capability of documenting and reporting on this information. DOH will develop

an action plan involving both the home support agencies and care coordination staff to have service start dates communicated and enable their recording in SEAscape so the time between the service authorization and service implementation dates is identified. Reasons for any delay in service start dates should be documented. This will be a necessary component supporting wait-time monitoring as well.

Recommendation 4.18
The Department and service providers should define what records must be maintained by service providers to document services provided to home care clients.

4.18 Response: DoH concurs with this recommendation and will involve service providers in developing an action plan to define what records must be maintained by service providers to document services provided to home care clients.

Recommendation 4.19
The Continuing Care Division should implement a quality assurance process to ensure appropriate assessment decisions are made, policies and procedures followed, and appropriately documented.

4.19 Response: DoH concurs with this recommendation. An action plan will be established to collaborate with the home care agencies and the DHAs to develop a quality assurance process to ensure appropriate assessment decisions are made, policies and procedures followed and appropriately documented.

Recommendation 4.20
The Department of Health should maintain a centralized record of complaints received and their disposition.

4.20 Response: DoH concurs with this recommendation and will develop a plan to maintain a centralized record of complaints received related to the provision of home care services and their disposition.

Recommendation 4.21
The Department of Health should develop written policies concerning the complaints process for home care clients to ensure complaints are appropriately resolved. The role of the Department and its service providers in complaint investigation and resolution should be clearly documented.

4.21 Response: DoH agrees with this recommendation and will establish an action plan within the fiscal year 2008-09 to develop written policies concerning the complaints process for home care clients and assign responsibility for investigation and resolution of complaints to ensure complaints are appropriately resolved. The role of the Department and its service providers in complaint investigation and resolution will be clearly documented.

Recommendation 4.22
The Department should implement a formal appeals process regarding decisions made in the investigation of complaints.

4.22 Response: DoH concurs with this recommendation to implement a formal process to appeal decisions made concerning the investigation of complaints. This will be done in concert with the previous recommendation regarding the complaint process for home care clients.

Recommendation 4.23
Senior management of the Division should ensure the proposed statistical and performance reports from SEAscape are appropriate for their needs and implement necessary changes so these reports can be generated.

4.23 Response: DoH concurs with this recommendation and has begun an initiative to determine what statistical and performance reports from SEAscape are most appropriate to meet the needs of senior management. The first of these regular reports is scheduled for circulation by December 2008.

Recommendation 4.24
The Department should develop a system to generate and monitor quality indicators using either the existing assessment tool, or another method.

4.24 Response: DoH concurs with this recommendation to develop a system to generate and monitor quality indicators using either the existing assessment tool, or another method. The existing Resident Assessment Instrument (RAI), which is the basis of the SEAscape software, has this capability. An action plan will be developed for ongoing training of service delivery staff on the regular use of quality indicators as well as a system for ongoing quality monitoring.

Recommendation 4.25
The Department should develop additional performance indicators, with established targets, to measure all aspects of the home care program.

4.25 Response: DoH accepts this recommendation and will establish an action plan to development additional performance indicators, with established targets, to measure all aspects of the home care program. This will include consultation with stakeholders including the Service providers and the DHAs.

Recommendation 4.26
The Department of Health should update guidelines for time required to complete home care services. This update should include a review of whether it is feasible to establish such guidelines for nursing care delivered to home care clients.

4.26 Response: DoH concurs with this recommendation and will establish an action plan to review current guidelines on the time required to complete home care services. This update will include a review of whether it is feasible to establish such guidelines for nursing care delivered to home care clients.

Recommendation 4.27

The Department of Health should move forward with a system to allow effective reporting of actual hours of service by home care service providers.

4.27 Response: DoH concurs with this recommendation. Preliminary work has been done to support this recommendation but the feasibility study to determine the most effective and efficient system to allow effective reporting of actual hours of service by home care service providers has been delayed due to the proximity of integration and limited resources. The current plan is for this project to resume in January 2009.

Recommendation 4.28

The Department of Health should review and improve the inspection process by developing an audit plan, assessing the objectives, risks and resources required for these audits, providing guidelines for the number of client and personnel files to be examined; requiring documentation be examined for completeness, and require an examination as to whether services provided were appropriate.

4.28 Response: DoH concurs with this recommendation to review and improve the inspection process for home care providers by developing an audit plan, assessing the objectives, risks and resources required for these audits, providing guidelines for the number of client and personnel files to be examined; requiring documentation be examined for completeness, and require an examination as to whether services provided were appropriate. An action plan will be developed before integration for this process that will involve consultation with key stakeholders including the home care providers and the DHAs.

5 Labour and Workforce Development: Pension Regulation

Summary

Pension savings are a major component of the overall assets of many Nova Scotia families. These assets are saved throughout an individual's working life with the goal of providing economic security in their retirement years. Due to the importance of these savings the Province of Nova Scotia has enacted the Pension Benefits Act; the primary purpose of which is to help protect pensioners' entitlements to benefits promised under pension plans. The Pension Regulation Division of the Department of Labour and Workforce Development is responsible for administering and enforcing the Pension Benefits Act and Regulations. We completed a performance audit at the Division focusing on whether the Division's processes and procedures were adequate to ensure compliance with significant aspects of the Act related to the safeguarding of pensioners' benefits.

To effectively safeguard pensioner entitlements to pension benefits, the Division must have adequate processes and procedures in place to ensure that pension plan investment strategies are prudent, implemented, and appropriately monitored. In addition the Division must ensure that required pension contributions are made and, in the case of defined benefit plans, that plan assets will be sufficient to provide promised benefits.

The Division's processes and procedures designed to safeguard pension benefits are not adequate and require improvements. The Pension Regulation Division does not review pension plan investment policies to ensure prudence or verify that pension plan assets are invested in accordance with policy and legislation. The Division does not independently verify that pension plan administrators have formally documented investment policies and procedures or whether these policies have been reviewed annually as required.

Pension plan administrators are required to submit annual information returns. These returns are certified by the plan administrator and include important information such as the market value of plan assets and annual employee and employer contributions. However, the returns are not always supported by independent documentation and the information is not routinely verified by the Pension Regulation Division.

Triennial actuarial valuation reports for defined benefit plans are an important control to assess whether plan assets are sufficient to meet promised benefits. We noted these reports are not always submitted on time and that there is no penalty for late filing.

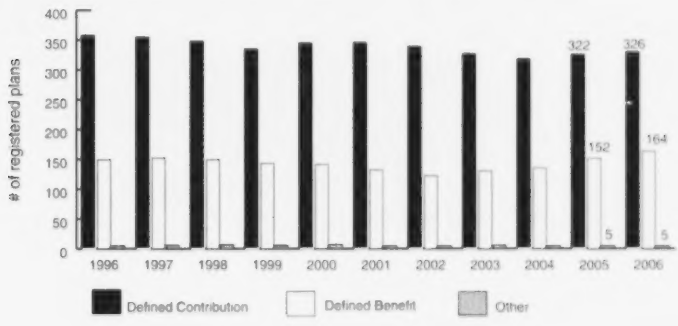
5 Labour and Workforce Development: Pension Regulation

Background

5.1 The Pension Regulation Division of the Department of Labour and Workforce Development is responsible for administering and enforcing the Pension Benefits Act and Regulations. A Superintendent of Pensions is appointed to perform the duties and powers pursuant to the Act. The Superintendent acts in accordance with directions from the Minister and prepares an annual report for the Minister. The annual report notes the main objective of the Pension Benefits Act is to safeguard employee entitlements to benefits promised under pension plans.

5.2 The Pension Benefits Act applies to private sector, not-for-profit and municipal government pension plans registered in Nova Scotia. The Act does not apply to employees who are subject to federal jurisdiction, nor does it apply to pension plans established for provincial public servants, teachers, judges, members of the legislature, or the Sydney Steel Corporation. The Pension Division's most recent annual report dated March 31, 2007 indicated that as of January 1, 2006, there were 411,518 paid workers in Nova Scotia, of whom 169,134 were members of pension plans. The Division is responsible to supervise 495 plans with a total membership of 102,490.

Exhibit 5.1
Plans Registered in Nova Scotia - January 1, 2006



Source: March 31, 2007 Annual Report of the Superintendent of Pensions

5.3 In Nova Scotia an employer may create a pension plan for its employees as a way to set aside funds to provide retirement income. The employer

appoints a pension plan administrator who registers the pension plan with the Superintendent of Pensions. The pension plan administrator can be the employer, a pension committee, or an insurance company. The administrator receives contributions from the employer and employee to invest and create a pool of funds to provide retirement benefits to employees. The administrator also provides plan members with any required information and documents (e.g., annual employee statements).

5.4 There are two main types of pension plans – a defined contribution or money purchase plan and a defined benefit plan. The most common type of pension plan in Nova Scotia is a defined contribution or money purchase plan. However, historically the majority of Nova Scotia employees are members of defined benefit pension plans due to the high number of workers employed in the public sector (2006 - 55.6%).

5.5 The amount of pension benefit for each member of a defined contribution pension plan can only be determined near the employee's retirement as the pension is purchased from the accumulated contributions and investment earnings at that time. It is not possible to accurately determine if each employee's savings will be adequate to fund his or her retirement until the retirement date is reasonably imminent.

5.6 A defined benefit plan contains a specific formula to estimate the pension each member will receive upon their retirement. The employer must fund the pension plan to provide this level of defined benefits. Every third year an actuary estimates how large the defined benefit pension fund should be as well as required contributions to ensure pension benefits are adequately funded. By legislation, an unfunded liability when a plan is established or amended can be funded over 15 years. Subsequent solvency deficiencies which arise later, must be funded over five years. Two exceptions are municipalities and universities - municipalities are only required to fund a pension liability to an 85% solvency level until August 30, 2016, and universities may fund a solvency deficiency, which arose before January 1, 2006, within 15 years.

5.7 The Division's annual report states the safeguarding of employee entitlements to pension plan benefits is accomplished through establishing minimum funding standards and minimum benefit standards. The Division performs a number of functions including registering plans and amendments, reviewing plan administrator annual filings, investigating plan member complaints, and providing information and support to pensioners.

5.8 The Pension Regulation Division of the Department of Labour and Workforce Development has four employees - the Superintendent, two

pension analysts and a secretary. The 2007-08 approved budget for the Division included revenues from fees and other charges of $400,000 and expenses of $323,000.

Audit Objectives and Scope

5.9 In February 2008 we completed a performance audit at the Pension Regulation Division of the Department of Labour and Workforce Development. The audit was conducted in accordance with Section 8 of the Auditor General Act and assurance standards established by the Canadian Institute of Chartered Accountants, and accordingly included all procedures we considered necessary in the circumstances.

5.10 The objectives of this assignment were to review and assess whether the Division's systems and processes are adequate to ensure compliance with the Pension Benefits Act and Regulations as well as the adequacy of performance reporting.

5.11 Generally accepted criteria consistent with the objectives of the audit do not exist. Audit criteria were developed specifically for the engagement and have been discussed with, and accepted as appropriate by, senior management of the Division.

5.12 Our audit work included interviews with Division management and staff; a review of legislation, manuals, public reports, and other documentation deemed relevant; as well as file testing.

Significant Audit Observations

Compliance with Legislation

5.13 *Conclusions and summary of observations* – We assessed whether the Pension Regulation Division's systems and processes were adequate to ensure compliance with the Pension Benefits Act and Regulations. We concluded that the current systems and processes were not adequate to effectively safeguard pensioners' benefit entitlements. We noted the Division does not independently verify whether pension plan investment policies are prudent, approved policies have been implemented, and whether they are being properly monitored and comply with the Act. In addition, there is no verification of whether the market value of plan assets being reported annually by the administrators is accurate and whether required contributions have been made. Relying primarily on information reported by plan administrators is not sufficient. The Division must ensure the information they use to assess the health of pension plans is accurate and plan assets are being managed in a manner which is prudent and proper.

5.14 *Annual information return* – Pension plan administrators are required to file an annual information return. The return includes important financial and other data related to the pension plan including the number of plan members, actual contributions remitted by members and employers, plan earnings for the year, and the market value of plan assets.

5.15 Plan administrators must also certify:

- the plan was administered in compliance with applicable legislation;
- required contributions were made;
- a statement of investment policies and procedures was developed which complies with the Pension Benefits Act;
- plan assets were invested in accordance with the investment policy; and
- the policy was reviewed by the administrator during the year.

5.16 We noted the annual information returns were completed as required for all 23 plan files tested.

5.17 *Pension plan monitoring* – The Division relies primarily on the information contained in the annual information return to fulfill its objective *"to safeguard employee entitlements to benefits promised under pension plans."* 22 of 23 pension plan files we tested had annual information returns which had been completed by plan administrators who were either management or staff of the pension plan employer.

5.18 When the Division receives the annual information return, the information is entered into a computer system. The Division conducts reasonableness checks on the number of members, contribution amounts (2006 - $458,436,230 as reported by Division) and market value of plan assets by comparing current year data with data from the prior year's return. Discrepancies are followed up with the plan administrator.

5.19 Based on the 23 annual information returns tested we determined that the Division had a documented process to review annual information returns, procedures were followed, and any issues or discrepancies noted were followed up and resolved. However, these review procedures were not sufficient as the information on the return was not verified to third party documentation.

5.20 The Division does not require independent verification of the number of plan members, the yearly contributions or the market value of assets reported by the plan administrator. Although the Act does not require the Superintendent to verify information in the annual return, Section 98 does empower the Superintendent to be able to receive any information related to

the plan. The Division receives triennial actuarial valuation reports prepared by independent actuaries for all defined benefit plans. These reports verify the sufficiency of plan assets and annual contributions required to fund pension obligations. There was no similar check for defined contribution plans. We believe this is not sufficient.

5.21 Section 98 of the Pension Benefits Act allows the Superintendent to inspect or audit any books, records, or other documents related to a pension plan. Under the Act, the Superintendent may require a plan administrator to furnish any information deemed necessary to ensure compliance with provisions of the Act and Regulations. Certain other provinces conduct field visits of plan administrators on a test basis to confirm and validate information. Alternatively, the Superintendent could require plan administrators provide documentation to validate key pension plan information such as the market value of pension investments. If the pension plan annual information return is incorrect, the Superintendent's ability to provide an oversight role is compromised, and pensioners' benefits could be at risk.

Recommendation 5.1
The Pension Regulation Division should periodically validate information on annual information returns to supporting, external documentation.

5.22 *Compliance with pension plan investment policies* – Section 29 of the Pension Benefits Act notes *"The administrator of a pension plan shall exercise the care, diligence and skill in the administration and investment of the pension fund that a person of ordinary prudence would exercise in dealing with the property of another person."* Pension plans are required to establish a written statement of investment policies and procedures which comply with the Act. Schedule III of the Regulations outlines the nature of and certain restriction on eligible investments. Administrators are required to follow the Regulations in managing the pension plan.

5.23 The administrator of each pension plan must review the statement of investment policies and procedures annually. This review should include an assessment of whether the investment strategy remains prudent given the economic climate at the time. As a result of the review, the administrator should confirm or amend policies and procedures. Amendments to investment policies and procedures must be submitted to the Division and to the pension committee or actuary of the plan.

5.24 The Division does not review whether investment policies are prudent for the plans under its supervision. It generally does not have individual plan investment policies on file. Additionally, the Division does not verify that

fund assets are invested in accordance with the plan investment policy, or whether the annual review by the administrator was completed as required.

5.25 The Division reviews defined benefit actuarial valuation reports every three years. These reports may indicate the pension plan fund rates of return are not sufficient to provide the planned pension benefits. In those cases we understand the Superintendent will ask the employer to review the investment strategy and the statement of investment policy and plan goals, and make changes if required. Actuarial valuations do not address whether plan assets are invested in accordance with investment policies, or whether the investments meet the requirements and restrictions of the Pension Benefits Regulations. Since there are no actuarial valuation reports for defined contribution plans, this periodic control over the prudence of investment does not exist for defined contribution plans.

5.26 An investment strategy which is not reasonable based on the current economic climate or which has not been implemented as designed poses a significant risk to plan assets, and ultimately to the benefits pensioners may receive in the future. The Division must have controls in place to help ensure pension plan investment policies are prudent and implemented as required to effectively regulate the Pension Benefits Act and safeguard pensioners' entitlements.

Recommendation 5.2
The Pension Regulation Division should implement a process to periodically verify that pension plan assets are prudently invested. The Division should also verify assets are invested in accordance with legislation and the plan statement of investment policies and procedures.

5.27 *Late filing penalties* – Section 13 of the Regulations requires that defined benefit plan administrators file a triennial actuarial valuation report within one year of the plan's year-end. The actuarial valuation provides the Division with an independent assessment of whether the pension plan has sufficient assets to meet future obligations to pensioners.

5.28 We tested eight defined benefit plans, which required triennial actuarial valuation reports. Three of the eight (38%) were filed late. We extended our test to include actuarial valuation reports filed over a three year period and noted that 25 of 200 (13%) returns were filed between 1 and 26 months late.

5.29 The Pension Benefits Act allows the Superintendent to charge late filing penalties related to annual information returns, but does not allow similar penalties for actuarial valuation reports. We understand that at least one other province imposes penalties for late filing. The triennial actuarial

valuation report is an important reporting requirement related to defined benefit plans. The Division needs to ensure it receives these reports in a timely manner so that plans with unfunded liabilities can be identified and appropriate follow-up action taken.

Recommendation 5.3
Pension Benefit Act regulations should be amended to provide penalties for late actuarial valuation reports.

Accountability and Performance Reporting

5.30 *Conclusions and summary of observations* – We assessed whether the Pension Regulation Division complies with the requirements of the Pension Benefits Act and Regulations for accountability reporting and assessed the adequacy of reported performance information. We concluded the Division's annual reporting was not timely and did not contain adequate performance information. The March 31, 2007 Report of the Superintendent of Pensions was sent to the Minister on March 6, 2008. This report included a single performance measure for defined benefit plans and no measure for defined contribution plans. Accountability and performance reporting must be timely and include appropriate measures of performance to allow assessment of the Division's operational effectiveness.

5.31 *Timeliness of reporting* – Section 94 of the Pension Benefits Act requires the Superintendent report to the Minister of Labour and Workforce Development annually. The Minister is required to submit the annual report to the Governor-in-Council and present the report to the House of Assembly. As the annual report is a legislative requirement we reviewed its contents and tested the accuracy of the report's representations. We did not find any significant errors in the report.

5.32 Contemporary public performance reporting principles in Canada note that accountability reports must be seen as credible and have useful information provided on a timely basis. At the time of our audit, the most recent annual report tabled in the House of Assembly was for the March 31, 2006 year-end. The Superintendent's March 31, 2007 annual report was sent to the Minister for approval on March 6, 2008 but had not been tabled when this Report was written in Fall 2008.

5.33 The Superintendent's report for the year ended March 31, 2007 notes the information in the appendix was obtained from Statistics Canada's pension plans database information dated January 1, 2006. Certain information in the report was over two years old when it was presented to the Minister. We questioned the usefulness of such dated information and noted it was inconsistent with contemporary public performance reporting principles in Canada.

Recommendation 5.4
The Superintendent's annual report should be released to the public within six months of fiscal year-end.

5.34 *Performance measures* – The March 31, 2007 report includes a section titled Security of Retirement Income. This information was also used in the Department's Business Plan and Annual Accountability Report performance measures.

5.35 The outcome the Division wishes to achieve is security of retirement income for members of private pension plans. The Division will measure its progress towards this outcome by considering the percentage of plan members covered by defined benefit pension plans registered with the province that are (a) 100% funded; or (b) have a strategy in place to achieve full funding within five years. This addresses defined benefit pension plans only but a significant number of Nova Scotians are members of defined contribution plans. On January 1, 2006 there were 56,176 members of defined benefit plans and 45,335 members of defined contribution plans. There is no performance measure for the 45,335 members of defined contribution plans.

Recommendation 5.5
Performance measures should be developed related to the Division's supervision of defined contribution plans.

Response: Department of Labour and Workforce Development

General Comments

The Department of Labour and Workforce Development would like to acknowledge the work of the Auditor General in the review of the operation of the Pension Regulation Division.

Response to Principal Findings and Recommendations

Recommendation 5.1:
The Pension Regulation Division should periodically validate information on annual information returns to supporting, external documentation.

The Department will recommend that the Government amend the Pension Benefits Regulations to require filing of audited financial statements in accordance with the proposal in the Regulatory Principles for a Model Pension Law developed by the Canadian Association of Pension Supervisory Authorities (CAPSA). If adopted, this would mean that audited financial statements must be filed for multi-employer pension plans, and for plans with non-pooled funds of more than $5,000,000.

Recommendation 5.2:
The Pension Regulation Division should implement a process to periodically verify that pension plan assets are prudently invested. The Division should also verify assets are invested in accordance with legislation and the plan statement of investment policies and procedures.

The recommendations of the Auditor General with respect to monitoring investments for prudence, and for compliance with legislation and the statement of investment policies and procedures, are not performed by any regulatory authority in Canada.

The Division is not able to adopt these recommendations. The Pension Benefits Act (the Act) imposes responsibility on the plan administrator to ensure the investments of the pension plan are invested prudently and in accordance with the statement of investment policies and procedures developed by the administrator. The Act does not specifically impose a role for the Superintendent in determining the prudence of investments. That responsibility rests solely with the administrator.

CAPSA has carried out an extensive review of the principles for regulation in the model pension law, and no recommendations have been made which would bring into effect actions similar to those recommended by the Auditor General.

For these reasons, the Department is not prepared to undertake the recommendations of the Auditor General.

Recommendation 5.3:
Pension Benefit Act regulations should be amended to provide penalties for late actuarial valuation reports.

The Department will recommend that the Government amend the Pension Benefits Regulations to provide a penalty for late filing of actuarial valuation reports.

Paragraph 31 *"The Superintendent's report for the year ended March 31, 2007 notes the information in the Appendix was obtained from Statistics Canada's pension plan database dated January 1, 2006. Certain information in the report was over two years old when it was presented to the Minister, making the information's usefulness questionable and inconsistent with contemporary public performance reporting principles in Canada".*

The only complete source of information available on the participation of Nova Scotians in pension plans is Statistics Canada, as the Department's information relates solely to plans registered in the province. Roughly 90,800 Nova Scotians participate in pension plans registered elsewhere or that are not registered. Excluding this information would not give the Minister a correct representation of the number of Nova Scotians participating in pension plans. The information used in the report is the most current information available, and thus should be consistent with contemporary public performance reporting principles.

Recommendation 5.4:
The Superintendent's annual report should be released to the public within six months of the fiscal year-end.

The Superintendent will file the annual report with the Minister within six months of the fiscal year end.

Recommendation 5.5:
Performance measures should be developed related to the Division's supervision of defined contribution plans.

The Division will develop a performance measure in respect of the supervision of defined contribution pension plans.

6 Nova Scotia Utility and Review Board: Public Passenger Vehicle Safety

Summary

Public passenger vehicle safety concerns all Nova Scotians. It impacts the well being of passengers being transported as well as other persons and vehicles on the road. The Motor Carrier Division of the Nova Scotia Utility and Review Board regulates carrier compliance with the Motor Carrier Act and other legislation. It administers a public passenger safety program which includes safety inspection of public passenger vehicles and carrier enforcement. We completed a performance audit of this program.

The Division's safety program, with its emphasis on semi-annual inspections, is not sufficient to ensure adequate maintenance of public passenger fleets therefore increasing the risk to passenger safety. Due to the lack of detailed inspection information we were not able to assess to what degree risks have been impacted. The Division reported that at least 60% of vehicles inspected had deficiencies requiring immediate correction. Our testing of inspection reports reflected similar results. We are concerned with the nature and number of potentially serious deficiencies found. We acknowledge the Division's inspections are conducted on time and to provincial standards. However, we believe a greater emphasis by the Division on carrier maintenance and driver compliance would increase the overall fitness of the carrier fleet and reduce safety risk.

The Division's enforcement processes to ensure compliance with motor vehicle safety legislation are inadequate and require improvement. These deficiencies increase the risks to passenger safety, however we were not able to assess to what degree risks have been impacted. The Division has no written enforcement criteria or guidelines for inspectors to determine appropriate responses to safety violations. We noted a number of instances where inconsistencies in enforcement may have occurred. An effective enforcement program is an important control in ensuring that public passenger vehicles are operating safely and to required standards.

Division management need relevant, timely and accurate information to help ensure that public passenger vehicles are safe. The Division does not have adequate information systems. This limits the Division's ability to analyze and identify carrier and vehicle safety deficiency trends and monitor enforcement activities. The Division relies on staff professional judgment and experience as well as manual monitoring processes. These methods provide limited information to assess the effectiveness of the safety program and to report on performance.

6 Nova Scotia Utility and Review Board: Public Passenger Vehicle Safety

Background

6.1 The Nova Scotia Utility and Review Board (Board) is an independent tribunal responsible for regulating a number of entities and economic activities. Those responsibilities include the regulation of all public passenger carriers within the province and interprovincial carriers operating to or from Nova Scotia. Carriers are defined to include commercial bus companies, school bus operations, and vans with a capacity of nine or more passengers (excluding the driver). The Board's mandate includes licensing carriers and approving fares, routes, stops, and equipment for use. The Board also licenses carriers who operate a commercial van as a public passenger vehicle with a seating capacity of eight passengers or less, excluding the driver. The Board's requirements for those types of vehicles are safety based and do not include fares, routes or other economic considerations.

6.2 The Board's March 2008 business plan identified the following strategic goal *"to maintain a safe and economically strong motor carrier fleet to meet the needs of the travelling public"*. The Board expects to accomplish this goal by maintaining an effective safety inspection and enforcement program. The Motor Carrier Division of the Board administers motor carrier licenses and the safety inspection and enforcement program for all public passenger carriers regulated by the Board. In addition, inspections are performed on certain vehicles which do not carry passengers for profit, such as those operated by facilities licensed by the Department of Community Services.

6.3 Enforcing the safety of public passenger vehicles is shared among several authorities whose respective responsibilities are set out in the following table.

Exhibit 6.1 - Authorities and Responsibilities

Authorities	Legislation	Responsibilities
Nova Scotia Utility and Review Board	Motor Carrier Act, Motor Vehicle Act, Motor Vehicle Transportation Act Canada	• licensing public passenger carriers • enforcing safety standards and provisions of the Acts and associated Regulations
Service Nova Scotia and Municipal Relations	Motor Vehicle Act	• enforcing driver licensing provisions of the Act and Regulations • safety risk rating of commercial carriers (see paragraph 6.5)

Authorities	Legislation	Responsibilities
Transport Canada	Motor Vehicle Safety Act	• developing and maintaining safety standards for motor vehicles and investigating serious accidents
Police Agencies	Motor Vehicle Act, Motor Carrier Act	• enforcing compliance with road safety provisions of the Acts and investigating accidents

6.4 The Motor Carrier Division indicated there are 293 carriers subject to safety inspections and approximately 2,621 public passenger vehicles operating in the Province. The Division employs 11 inspectors and one senior inspector throughout the province, managed from head office in Halifax.

6.5 Service Nova Scotia and Municipal Relations (SNSMR) is responsible for motor vehicle registration and issuing driver licenses. The Department also carries out assessments of the safety performance of commercial carriers, including trucks and buses, through a safety rating process. This process includes tracking highway accidents and convictions against a carrier or its drivers, such as vehicle maintenance or hours of work violations, as part of operations audits to determine the carrier's level of compliance with all applicable safety standards. We did not include the responsibilities carried out by SNSMR in the scope of our audit. Certain of these responsibilities will be examined in an upcoming audit.

Audit Objectives and Scope

6.6 In August 2008 we completed a performance audit at the Motor Carrier Division of the Nova Scotia Utility and Review Board for the period from 2006 to 2008 inclusive. The audit was conducted in accordance with Section 8 of the Auditor General Act and auditing standards established by the Canadian Institute of Chartered Accountants; and included such tests and procedures we considered necessary in the circumstances.

6.7 The objectives for this assignment were to determine whether the Division's:

- information systems and processes to manage public passenger vehicle safety responsibilities are adequate;
- inspection and enforcement processes are adequate to ensure compliance with public passenger vehicle safety legislation and policies; and
- systems and processes to address complaints from the public concerning public passenger vehicle safety are adequate.

6.8 Generally accepted criteria consistent with the objectives of the audit do not exist. Audit criteria were developed specifically for the engagement using both internal and external sources. Criteria were discussed with and accepted as appropriate by management of the Division.

6.9 Our audit focused on the Motor Carrier Division's processes and procedures concerning public passenger vehicle safety. It did not include the Division's responsibilities for the administration of motor carrier licenses.

6.10 We conducted audit fieldwork at the Division from April to August 2008. We interviewed management and staff; examined policies, files and other documentation deemed to be relevant; reviewed systems; and tested certain processes and procedures.

Significant Audit Observations

Management Information and Reporting

6.11 *Conclusions and summary of observations* – We assessed the adequacy of the Division's information systems and processes to manage its public passenger vehicle safety responsibilities. We concluded the Division's information systems and processes are not adequate. Information systems do not provide relevant, timely and accurate information regarding the extent and completeness of inspection and enforcement activities carried out by staff. Management needs information that is relevant, accurate and readily available to make informed decisions and assess and report on performance.

6.12 *Management processes* – Inspectors communicate and meet with the senior inspector, scheduling coordinator and the Division director. The director and senior inspector oversee the activities of inspection staff through frequent discussions, communication, and meetings to keep up to date on their activities and issues. The scheduling coordinator uses reports prepared by the inspectors to monitor work activity.

6.13 *Management information systems* – The Division's licensing and inspection computer system was developed in the early 1990's. It is a DOS-based system designed primarily for registration and licensing purposes with some capture of inspection information. The system does not record detailed information on inspection results, such as the types of deficiencies found, only whether the vehicle passed or failed the inspection. It also does not provide inspection histories for the vehicles. A limited number of standard reports on license applications, approvals and inspections can be generated from the system.

6.14 Administration staff prints monthly reports on inspections due and sends them to the inspectors. Inspectors do not have access to the system. They maintain a manual card system which provides a brief inspection history of the vehicles and helps them to schedule their inspections. Inspectors schedule their time to complete the inspections and document the results on manual inspection forms. Administration staff enters summary level inspection results into the system from the completed forms.

6.15 Inspectors prepare a separate daily report noting information such as the number of inspections conducted and the number of vehicles removed from service. Inspectors summarize the statistics on monthly reports and management summarizes the monthly reports for quarterly reporting to the Board, and published annual reports. These manual tasks are time consuming, subject to error, and could be done electronically.

6.16 Management and inspectors rely on their professional expertise and experience to identify trends in inspection results. The information system does not automatically flag operators with poor inspection results and it is not possible to obtain this information as the system maintains only the most recent summary level inspection results. Division staff must collect previous inspection reports and manually tabulate results from the paper forms to prepare an analysis. This lack of information could compromise the Division's ability to monitor for inspection consistency and safety deficiency trends, plan responses to trends, and evaluate the effectiveness of its inspection program.

6.17 The Division does not compile enforcement information for review and analysis. Division staff file completed documents, such as roadside inspection forms, summary offence tickets and violation reports (warnings) in separate binders. Summary information from these documents is not prepared. Given the limited system capabilities and manual data collection processes, management's ability to monitor enforcement activities for consistency and trends, and evaluate the effectiveness of its enforcement efforts, is constrained. Analysis of enforcement data on a regular and timely basis would detect inconsistencies in enforcement of legislation. Inconsistencies in enforcement could increase the overall risk to public passenger vehicle safety.

6.18 Management initiated a process in 2005 to acquire a new information system but encountered a number of difficulties. A new system has yet to be implemented.

Recommendation 6.1
The Division should assess its operational information needs for inspection and enforcement activities and make the implementation of a new management information system a priority.

6.19 *Reporting* – Carriers are not required to report public passenger vehicle accidents to the Division. The Division may not be aware of accidents caused by mechanical failure or driver error which may warrant further investigation by the Division. The Division has not set out a specific process for inspectors to record accidents which they are aware of or investigate. We found limited accident-related documentation in our examination of carrier files and inspectors' daily reports. We believe risk to the public passenger fleet may be further reduced by collecting and analyzing accident information in a more formal way.

6.20 In its annual business plan and accountability report, the Nova Scotia Utility and Review Board uses the number of preventable public passenger vehicle accidents caused by mechanical failure as a measure of the success of its safety program. The Board reported there were no accidents caused by preventable mechanical failure in 2006-07. Division management was unable to provide documentation to support this report. Such important statements by the Board should be verifiable and supported.

Recommendation 6.2
The Division should establish a process to identify, track and analyze public passenger vehicle accidents and take corrective action where required.

6.21 The Board's business plan also includes statistics on inspections, roadside checks and investigations. We noted the Division gathers these statistics but does not provide analysis, such as the safety inspection deficiency rate, or indicate their significance. Undertaking such analysis would give the Division better information to determine the effectiveness of its activities and provide more meaningful public reporting.

Recommendation 6.3
The Division should develop a comprehensive process for documenting and reporting on its performance which includes measures of the effectiveness of its activities.

Compliance With Legislation

6.22 *Conclusions and summary of observations* – We assessed whether the Division's inspection processes are adequate to ensure compliance with public passenger vehicle safety legislation and policies. We concluded inspections alone are not sufficient to ensure compliance. We are concerned with the number and nature of potentially serious deficiencies identified during safety inspections. Ongoing maintenance of the vehicles is critical to ensure they continue to meet required safety standards. We acknowledge the Division's inspections are conducted on time and to provincial standards

but the deficiencies found suggest a greater emphasis by the Division on carriers' day to day maintenance is required to increase the overall fitness of the carrier fleet and reduce safety risk. We also believe enforcement activities related to driver compliance should be enhanced.

6.23 *Vehicle maintenance* – Detailed safety inspections are an important control to help ensure that public passenger vehicles meet required provincial standards necessary to transport passengers. Inspection is a means to verify the operational and safety fitness of a vehicle on the day it is inspected. It does not guarantee a vehicle will remain safe through to the next inspection. Operators are expected to maintain an adequate preventative maintenance program, outside of the Division's inspections, to help ensure that a vehicle will meet safety standards between inspections.

6.24 The Division does not usually perform surprise inspections on carrier vehicles. Semi-annual inspections are scheduled in advance, providing carriers an opportunity to identify and correct deficiencies before a vehicle is inspected. Over the last three years, the Division reported it performs approximately 4,900 inspections a year, with 3,100 vehicles kept out of service on initial inspection (63%). We are concerned with the continued high deficiency rate. We believe the Division's safety program could be enhanced by targeting apparent weaknesses in carrier maintenance systems. This should improve overall fitness of the carrier fleet and further reduce safety risk.

6.25 We examined 220 inspection reports from 2006 to 2008 and found 63% of the vehicles inspected had deficiencies which required immediate correction, with an average of 2.6 deficiencies per inspection. From our sample, we identified 574 deficiencies resulting in 138 vehicles remaining out of service until repairs were made. Of the reports we examined, 55 were for the same vehicle during two consecutive inspections. We found 16 cases (29%) where similar types of deficiencies were noted in both inspections, including things such as lights and reflectors, tires, and brakes. Our testing results are summarized in the following exhibits.

Exhibit 6.2 - Summary Testing Results

Type of Vehicle	Number of Inspections by Vehicle Type	Number/ Percentage of Inspections with Deficiencies	Total Number of Deficiencies	Average Number of Deficiencies per Inspection
Coach	48	35 (73%)	156	3.3
School Bus	112	70 (63%)	274	2.5
Van	38	18 (47%)	66	1.7
Other	22	15 (68%)	78	3.6
Total	**220**	**138 (63%)**	**574**	**2.6**

Exhibit 6.3 - Detailed Testing Results

Type of Deficiency (Number of Occurrences)	Percentage of Total Deficiencies	Type of Vehicle			
		Coach	School Bus	Van	Other
Tires (25)	4%	4	12	5	4
Brakes (83)	14%	24	35	15	9
Steering (42)	7%	13	13	6	10
Suspension (29)	5%	9	12	2	6
Power Train e.g. exhaust, engine, clutch (88)	15%	29	45	4	10
Instruments/Equipment (55)	10%	12	26	13	4
Lamps (49)	9%	16	19	4	10
Electrical System (15)	3%	4	8	1	2
Body, e.g. wipers, doors, mirrors (150)	26%	35	86	10	19
Other (38)	7%	10	18	6	4
Total (574)	100%	156	274	66	78

6.26 Management indicated not all of the deficiencies we noted would result in a vehicle being kept off the road if the inspection had been performed during a roadside inspection (see paragraph 6.36). Scheduled inspections are done in a garage or shop which allows the inspector to examine all parts, including underneath and inside the vehicle. This is not the case for a roadside inspection. Some of these deficiencies may not represent an imminent safety hazard (vehicle is unsafe to drive) but mean an item is out of tolerance with standards (will not likely continue to meet the standard over the next six months). Nevertheless, the Division requires these deficiencies to be addressed before the vehicle can go back into service. We were not able to determine the specific percentage of deficiencies in our test population related to hazardous and out of tolerance conditions. The Division does not collect data on the severity of the deficiencies detected. We believe it would be useful to analyze information on severity of deficiencies to aid in detecting and addressing safety issues.

6.27 The Division and Service Nova Scotia and Municipal Relations (SNSMR) share responsibility for monitoring and ensuring carriers have adequate preventative maintenance systems. SNSMR administers a carrier safety rating program which includes an assessment of carrier preventative maintenance programs. Division management indicated information related to program results is not shared between SNSMR and the Division. This information could be useful in alerting the Division to potential problem areas in a carrier's preventative maintenance program which may require specific action by the Division. Given the inspection deficiency

rates noted, we are concerned there could be a gap in monitoring between the two entities resulting in little, if any, overview of carrier maintenance systems. We believe coordination between the two entities could improve overall effectiveness.

6.28 *Vehicle drivers* – We noted the Division has limited monitoring activities related specifically to public passenger vehicle drivers. The Division has a well established inspection process but it mainly involves the mechanical fitness and safety of the vehicle. While detection of mechanical deficiencies is an important component of vehicle safety, driver behavior plays a very important role in accident prevention. Driver error is often cited as a factor in reported accidents.

6.29 When inspectors are not involved with semi-annual inspections they are expected to perform roadside inspections and other enforcement activities. Management indicated that, due to required semi-annual inspections and available resources, roadside inspections and other enforcement activities are limited and may be deferred in order to complete required inspections. We determined most of the roadside inspections (87%) from August 2007 to July 2008 were carried out during 4 months of the year; there were 8 months where very few, if any, were done.

6.30 We examined roadside inspection forms and other enforcement information for the period from August 2007 to July 2008. Although we did not attempt to verify the completeness of these records, we noted 231 roadside inspections were performed and 51 summary offence tickets (SOT's) issued. 26 of the tickets were issued during roadside inspections. Our analysis of the 51 tickets showed that 65% of the offences cited related to driver violations. The violations concerned failure to properly complete hours of work logs (16 SOT's), failure to perform pre-trip inspections (14 SOT's), and wrong class, suspended or no license (3 SOT's). The Motor Carrier Act and Regulations indicate the Division has some responsibility for driver compliance, as do other government departments and agencies under other legislation. We believe the Division's effectiveness would be enhanced by directing additional resources to this activity given roadside inspections are their primary means for enforcing safety regulations related to public passenger vehicle drivers.

6.31 *Effectiveness of safety program* – Based on our findings, we believe the Division needs to strategically evaluate its safety program to determine if its resources are allocated in the optimal way to maximize effectiveness. A formal risk assessment, facilitated by a qualified third party, would help identify and rank significant operational risks relative to the accomplishment of the Division's objectives. The process would lead to a program designed to effectively and efficiently control the risks identified, including meaningful and measurable performance measures to help assess the Division's ongoing effectiveness in delivering its safety program.

Recommendation 6.4
The Division should carry out a formal, facilitated risk assessment of its operations. An action plan to address recommendations from the assessment should be developed and carried out.

6.32 *Semi-annual inspections* – The Division is required by legislation to inspect all operating public passenger vehicles at least twice a year to ensure vehicles are mechanically safe to operate and meet safety standards. Our testing indicated that the Division is meeting its inspection targets. Inspectors use a standard form to document their inspection results. The form provides a comprehensive list of items that require examination. The inspection manual provided to inspectors details items to be examined and criteria for determining whether they meet safety standards. The manual was developed through the Canadian Council of Motor Transport Administrators (CCMTA). We found the Division's inspection policies and procedures reflect current legislative requirements, which include CCMTA inspection standards.

6.33 We noted a weakness in the inspection process which could result in inaccurate ratings and, consequently, increase the risk of approving a public passenger vehicle for use which does not meet minimum braking standards. Inspectors perform tests of brakes using a specially designed brake meter that registers the vehicle's braking efficiency. Vehicles not achieving a 65% efficiency rating, as required by legislation, are placed out of service until the necessary repairs are made. Although the manufacturer of the brake meters recommends the meters be recalibrated at least every two years to ensure readings are accurate, the Division does not follow this recommendation.

6.34 We requested information on maintenance and recalibration of the Division's 14 brake meters. We were informed that such records are not maintained. We reviewed invoices for work completed on the meters and noted seven meters had been repaired or recalibrated from one to three times over the period from 1997 to 2007. There was no evidence the remaining seven brake meters had been serviced. It is possible the Division's meters are giving inaccurate test results. If the braking efficiency is not adequate, a vehicle could fail to stop on time in an emergency situation.

Recommendation 6.5
The Division should establish regularly scheduled maintenance and recalibration of its brake meters, in accordance with the recommendations of the brake meter manufacturer.

Enforcement

6.35 *Conclusions and summary of observations* – We assessed whether the Division's enforcement processes are adequate to ensure compliance with public passenger vehicle safety legislation. We concluded enforcement processes are inadequate and need improvement. The Division has no formal, written enforcement criteria or guidelines and does not maintain enforcement information in a manner to allow comprehensive review. We examined evidence where enforcement activities were carried out, and noted a number of instances where inconsistencies may have occurred or we were uncertain whether appropriate enforcement actions were taken. An effective enforcement program is an important control in ensuring that public passenger vehicles are operated safely and to required standards.

6.36 *Enforcement processes* – We investigated the framework for enforcement of the Acts and Regulations and determined the authority, roles and responsibilities for enforcement are clearly documented. Roadside inspections are a key part of the Division's enforcement activities. These inspections focus on imminent vehicle safety deficiencies and include driver hours of operation and license requirements. Enforcing safety compliance can involve non-punitive measures, such as persuasion and education, and punitive measures, such as warnings, summary offense tickets, and hearings before the Board. Inspectors use their judgment to determine the appropriate course of action; the senior inspector and director are available for consultation as required.

6.37 The Division has no written criteria and guidelines for determining appropriate responses when an inspector encounters safety violations; decisions are determined based on the experience and professional judgment of the inspector. Inspectors are licensed mechanics with experience that qualifies them to inspect vehicles. They receive some orientation and training in enforcement through on-the-job activities and other training courses. The Division does not have a specific orientation and training program to assist inspectors to develop the necessary skills and consistent approach to enforcement. The Division relies on the experience of its existing staff to assist in this area. Established enforcement criteria and guidelines would help ensure a fair, consistent and timely enforcement program by outlining appropriate responses and enforcement options when violations are detected. Reliance on professional judgment alone may result in inconsistent enforcement of legislation and standards which may increase the risk to public passenger safety.

6.38 *Enforcement activity testing* – We examined the Division's enforcement documents for the period from August 2007 to July 2008. Although we did not attempt to verify the completeness of these records, we noted a number

of instances where inconsistencies in enforcement may have occurred or we were uncertain whether appropriate enforcement actions were taken.

- Warnings or summary offence tickets were not issued for 30% of the roadside inspections where deficiencies were noted. Warnings or tickets were issued for similar deficiencies noted in other reports.
- The percentage of reports with written infractions, for inspectors completing 20 or more roadside inspections, ranged from 4% to 40%.
- Eight tickets were issued for vehicles with faulty tires and three for improperly licensed vehicles. Three tickets were issued to drivers without a license, the required class of license or a suspended license. Although tickets were issued, for 12 of the 14 incidents the inspection reports did not note the inspector's action to address the potential safety issue. In two cases the inspector noted the vehicle was escorted off the road for tire replacement. We could not determine if any action was taken in the remaining 12 cases.

Recommendation 6.6
The Division should establish formal enforcement criteria and guidelines to assist inspectors in their enforcement activities. Procedures should be established to ensure the criteria are followed.

Complaints

6.39 *Conclusions and summary of observations* – We assessed whether systems and processes for handling complaints from the public concerning public passenger vehicle safety are adequate. We concluded the Division does not have adequate systems to track and monitor complaints concerning vehicle safety. The Division does not use a logging system to record complaints nor does it fully document activity in investigating a complaint and its resolution. Complaints are potentially a significant source of information on activities that may impact public passenger safety. It is important that the Division record complaints received and address them in an appropriate and timely manner, including investigation where warranted.

6.40 *Tracking system* – Division staff receive complaints through e-mail, telephone calls and discussions with carriers but do not capture them in a central logging system. Management relies on its recall of events and documentation that exists in e-mails, inspectors' daily reports and carrier files to present a complete record of complaints against a motor carrier. The Division does not maintain sufficient documentation to enable us to determine if all complaints are captured and responded to in an appropriate and timely manner. A complete record of complaints can provide the Division with information about a carrier and the opportunity to analyze patterns and

trends to identify potential problems. Without an adequate logging and tracking system the Division may not address public complaints in a timely and appropriate manner. Public passenger safety could be compromised if a complaint of a serious safety matter against a carrier was not properly investigated.

Recommendation 6.7
The Division should establish a formal complaint tracking and monitoring system.

Response: Nova Scotia Utility and Review Board

Thank you for providing this opportunity to respond to your report concerning a review of the Motor Carrier (Public Passenger) Division. Generally, we accept the recommendations made. Before we provide specific comments on recommendations we wish to provide some additional context.

Introduction

We understand the Nova Scotia Motor Carrier Inspection Program to be a more extensive and independent program than found in any other province in Canada. This is the only inspection program in Canada, we are aware of, where 100% of the vehicles are inspected by Government inspectors each and every year. While clearly some documentation is lacking, the nature and type of the inspection itself is comprehensive and thorough. Nova Scotia is also the only jurisdiction that currently uses brake meters on all vehicles to measure braking efficiency.

A focus of the Auditor General's report is monitoring of commercial vehicle drivers by the Division. It is the Board's view that the Division's role, as a matter of legislation and policy, has been to focus on mechanical fitness of vehicles and not on driver activities. The Auditor General appears to assume a mandate with respect to driver enforcement that, under legislation and policy, the Division does not have. As pointed out in the report, responsibility for public passenger safety is shared between several agencies. We acknowledge that a review of alignment of roles and responsibilities may be worthwhile. The Division will consult with those other authorities to clarify the nature and extent of its role.

Many of the Auditor General's comments concern lack of complete record keeping. While the Board agrees with these comments, it is important that they be considered in an appropriate and fair context. The Board, in 2005, embarked on obtaining a new information system. A reputable software company was engaged to do that work. That company has since defaulted under the contract to the point where, on the advice of counsel and the Provincial Government IT staff, the contract is being terminated and re-tendered. While this does not excuse documentation problems, the Board was, in good faith and well ahead of the Auditor General's audit, attempting to resolve these problems. They will be resolved. The Division's primary focus has always been to ensure that public passenger vehicles operating in Nova Scotia meet all inspection safety standards. The Division's Director, inspectors and support staff clearly understood this activity to be their highest priority and their technical skills, work and resources are targeted to meet this objective. Due in part to their efforts, since 1984 no serious motor carrier accidents involving loss of life have occurred in Nova Scotia and the Board is viewed by other jurisdictions as a leader in ensuring that public passenger vehicles meet current safety standards.

Responses to Recommendations

Recommendation 6.1
The Division should assess its operational informational needs for inspection and enforcement activities and make the implementation of a new management information system a priority.

We accept the recommendation. As noted above this has already been identified as a priority and our intent is to see this project through to completion.

Recommendation 6.2
The Division should establish a process to identify, track, and analyze public passenger vehicle accidents and take corrective action where required.

We accept the recommendation. The current informal collection process will be formalized and the Board will seek to make accident reporting by carriers mandatory. Documentation and analysis of accident investigations will be formalized. The Division will continue to take corrective action whenever safety issues are identified.

Recommendation 6.3
The Division should develop a comprehensive process for documenting and reporting on its performance which includes measures of the effectiveness of its activities.

We accept the recommendation. Some of the specific points made in the report will be addressed as part of the redevelopment of the information system. Documentation and analysis not covered in that project will be separately addressed and improved.

Recommendation 6.4
The Division should carry out a formal, facilitated risk assessment of its operations. An action plan to address recommendations from the assessment should be developed and carried out.

We accept the recommendation and will undertake the following activities:

1. Arrange for a formal, facilitated risk assessment. In determining the scope of the assessment, particularly as a portion of it would relate to driver compliance, we will include consultation with SNSMR (Service Nova Scotia and Municipal Relations) and other potentially affected departments to ensure the roles and responsibilities of others are properly considered and appropriate jurisdictions are respected.

2. In conjunction with redevelopment of the information system noted above,

introduce collection of information on severity of inspection defaults and analysis thereof.

Based on results of information collected on safety deficiencies the Division will determine what changes in enforcement and inspection are possible in order to improve carrier maintenance systems.

Recommendation 6.5
The Division should establish regularly scheduled maintenance and recalibration of its brake meters, in accordance with the recommendations of the brake meter manufacturer.

Based on initial discussions with your staff the Division has already taken steps to have the brake meter calibration checked and adjusted if needed. For future, the brake meters will be regularly returned for recalibration in accordance with the manufacturer's recommendations. The current practice of relying on informal comparison of meters will cease.

Recommendation 6.6
The Division should establish formal enforcement criteria and guidelines to assist inspectors in their enforcement activities. Procedures should be established to ensure the criteria are followed.

We accept the recommendation. Formal enforcement criteria and guidelines will be developed and implemented.

Recommendation 6.7
The Division should establish a formal complaint tracking and monitoring system.

We accept the recommendation. A more formal complaint tracking system is now being developed and implemented.

Other Matters

In addition to the recommendations made there were supporting observations we would like to specifically address. They are as follows:

1. Concerning compliance with legislation, you have observed that you believe enforcement activities related to driver compliance should be enhanced. While the Division generally agrees with the concept of better driver enforcement it is concerned that focussing on such activities is in fact outside of its current mandate. As this is considered to be a matter of broader policy the Board will seek additional guidance from Government.

2. Concerning compliance with legislation it was noted that there could be

better cooperation between SNSMR and the Motor Carrier Division. We accept this observation and will seek to do so.

Conclusion

We would like to take this opportunity to thank the Auditor General staff for a thorough review of the operations of the Motor Carrier Division. We appreciate any recommendations and observations which will assist in improving the safety of the public passenger vehicle fleet.

Financial Reporting

7 Government Financial Reporting

Summary

The Auditor General's opinion on the 2008-09 revenue estimates was tabled in the House of Assembly on April 29, 2008. It contained a reservation of opinion related to a scope limitation and non-compliance with Canadian generally accepted accounting principles (GAAP).

We issued a management letter on the revenue estimates outlining our findings and observations. We recommended the budget be prepared and presented fully in accordance with GAAP and that the Department of Finance should take the necessary steps to ensure it is provided with the appropriate authority for completion of revenue estimates, given the Department's responsibility for the preparation of the estimates. We also recommended offshore forfeitures be estimated and included in the revenue estimates.

The Minister of Finance tabled the Province's audited consolidated financial statements on August 5, 2008. The Auditor General's opinion on these financial statements was unqualified.

Several findings and observations resulting from the audit were reported in a management letter issued to the Minister of Finance in August 2008. While our findings were neither individually nor cumulatively significant enough to affect the opinion on the consolidated financial statements, each impacts the integrity of the financial results.

As in previous years, we made several comments with respect to systems and controls. We recommended internal controls and related roles and responsibilities be documented. We have suggested or recommended this action several times since first noting it in 2003. We are concerned with the slow progress in implementing this recommendation.

We are required under Section 9 of the Auditor General Act to report any appropriations that were exceeded during the year. Two additional appropriations were required totaling $385.3 million for 2007-08. Additional appropriations have increased from $99.0 million in 2003-04 to $385.3 million in 2007-08, an increase of $286.3 million over this five year period.

We noted, as we have several times over the past years, that the current process to approve additional appropriations reduces accountability to and control by the House of Assembly. We suggested Cabinet consider developing a process to involve the full House of Assembly in the process to approve additional appropriations.

7 Government Financial Reporting

Background

7.1 The Provincial Finance Act establishes the roles and responsibilities of the Minister and Deputy Minister of Finance. Key among these are financial reporting requirements, including the preparation of estimates, public accounts and forecasts. These reporting requirements are a significant component in the accountability framework between the Department and the House of Assembly. The framework also includes:

- the annual tabling of crown corporations' business plans, audited financial statements and proposed public financing in the House of Assembly;
- the filing of required documents as a foreign registrant of the Securities and Exchange Commission in the United States (or its equivalent in other countries);
- other discretionary financial information or reports released to the public;
- the oversight responsibility of the Executive Council; and
- the role of the House of Assembly itself, including the Public Accounts Committee, in holding government accountable for the use and control of public funds.

7.2 As an independent audit office, the Office of the Auditor General's role in the accountability framework is established through the Auditor General Act. The broad mandate of the Act provides for the Office to examine and report to the House of Assembly on the use and control of public resources by government and its controlled entities, as well as recipients of financial assistance. Further, Sections 9 and 9B of that Act provide for specific annual reporting by the Auditor General on the Province's consolidated financial statements (an audit engagement, providing a high level of assurance with an audit opinion), and Government's revenue estimates (a review engagement, providing a moderate level of assurance).

Chapter Objective

7.3 The purpose of this Chapter is to provide summary comments and observations on the government's financial reporting, including:

- information on the results of our review of the Government's 2008-09 revenue estimates included in the April 29, 2008 budget documents;

- summary comments and observations on our audit of the Province's March 31, 2008 consolidated financial statements;
- comments on the significance and timing of additional appropriations; and
- other matters.

Significant Observations

Review of 2008-09 Revenue Estimates

7.4 *Conclusions and summary of observations* – The Auditor General's opinion on the 2008-09 revenue estimates was tabled in the House of Assembly on April 29, 2008 along with the Government's budget documents. It contained a reservation of opinion related to a scope limitation and non-compliance with Canadian generally accepted accounting principles (GAAP).

7.5 The opinion on the revenue estimates was qualified because the revenue estimates did not include revenues for certain governmental units. The budget was therefore not prepared on a fully consolidated basis which is inconsistent with the basis of presentation for the consolidated financial statements. In addition, we were not able to determine the extent of these revenues. This resulted in a scope limitation. We recommended future revenue estimates include all revenues of the consolidated entity. We further recommended revenue for offshore forfeitures be estimated and included in the revenue estimates. Finally, we recommended the Department of Finance take the necessary steps to ensure it is provided with all information to fulfill its responsibility for preparing the revenue estimates.

7.6 *Preparation of revenue estimates* – Our review of the revenue estimates for 2008-09 was again qualified. These qualifications are indicative of deficiencies in the budget process as it relates both to completeness of revenues at specific departments, and also accountability to the Department of Finance, which has overall responsibility to report the budgeted revenue figures.

7.7 The revenue estimates presented in the April 29, 2008 budget document exclude certain revenues from third parties. Specifically, these revenues relate primarily to the Departments of Health (district health authorities) and Education (regional school boards). Canadian generally accepted accounting principles require these revenues be reported as separate revenue line items in the Government's revenue forecast.

7.8 These third party revenues, examples of which are ancillary operations in health authorities and municipal funding in school boards, are included

elsewhere in the budget document as an offset against expenditures of the respective governmental units. Budgeted revenues and expenses for all governmental units net to zero on the total provincial budget. Since these revenues have not been estimated, and are not reported separately, the revenue estimates are not complete, and are therefore not in accordance with Canadian generally accepted accounting principles. The budgeting process around these revenues, in addition to being incorrect from an accounting perspective, does not provide users of the budget document with a true understanding of either the budgeted revenues or expenditures of the related Departments. Such information would facilitate the review or challenge of revenue and spending plans.

7.9 According to the Provincial Finance Act, ultimate responsibility for the preparation of the annual estimates of the Province, including the revenue estimates, rests with the Minister of Finance. This information is to be prepared under the direction of the Deputy Minister of Finance. The preparation of the estimates includes ensuring that the revenue estimates and the related assumptions developed throughout government are reasonable, appropriately supported, complete and presented in accordance with Canadian generally accepted accounting principles. The Department of Finance must have the authority to compel departments to provide all necessary information in order to meet its responsibility for completing the annual estimates.

7.10 The Department of Finance was not provided with detailed support for these third party revenue items from the respective Departments and therefore was not able to effectively fulfill its mandate. The Department of Finance was advised that this information was not available at budget date. Consequently the Department of Finance was not able to provide our Office with either quantification of, or support for, these revenues. Accordingly, we were unable to perform a review of these third party revenues, including the determination of their nature and magnitude. This lack of information represents a significant scope limitation in our report and led to a qualified opinion.

7.11 We are aware that neither district health authorities' nor regional school boards' budgets are approved until after the start of the province's fiscal year. We appreciate there are difficulties in estimating these third party revenues, and that this poses a challenge to determining complete budgets for these Departments. However, we emphasize the need for recognition of these revenues in the budget, and therefore we recommend that future revenue estimates include these amounts. The supporting assumptions and calculations used to determine these revenues should be provided to the Department of Finance.

Recommendation 7.1
The Department of Finance should ensure the Provincial budget includes all revenues of the consolidated entity in order to comply with Canadian generally accepted accounting principles.

7.12 *Offshore forfeitures* – In prior years, we reported our concern that there was no estimate of revenue from offshore forfeitures. This was again an issue resulting from our review of the 2008-09 Revenue Estimates. Exhibit 7.1 provides details of actual offshore forfeitures in each of the past five years.

Exhibit 7.1 - Offshore Forfeiture Revenue

Year	Revenue (in millions of dollars)
2007-08	107.1
2006-07	4.2
2005-06	43.2
2004-05	61.0
2003-04	1.2

7.13 Government has indicated the volatility and uncertainty of this revenue item necessitates a conservative approach to its budgeting. We emphasize the need for determining this revenue item for budget purposes in order to avoid significant budget to actual variances during the year. This ensures the completeness of the revenue estimates. It also potentially reduces the need for additional appropriations as these revenues can be considered in the annual spending plans of the Government.

Recommendation 7.2
Revenues from offshore forfeitures should be estimated by the Department of Energy and included in the revenue estimates of the Province.

7.14 *Information requests* – During this year's engagement, our Office's representatives again met with resistance obtaining supporting documentation for certain other revenues and cost recoveries. In addition, in order to ensure recoveries were appropriately classified and to support the amount, we required information on related expense items. There was again considerable resistance to this request.

7.15 Under our mandate to review the budget revenue estimates we are obligated to seek, and the respective departments are obligated to provide, whatever supporting evidence we deem appropriate to support the opinion. The nature of the evidence we have requested is reasonable and the timelines expected for its collection in line with the expectations for the development

of annual departmental budgets in support of the overall Provincial budget forecast.

7.16 The problems we encountered in obtaining support for these revenue items may again be related to the absence of an established budget preparation protocol between the Department of Finance and other departments. While this information was eventually made available, the initial resistance to providing the appropriate support caused delays in the timely completion of our review.

Recommendation 7.3
The Department of Finance should take the necessary steps to ensure it is provided with the appropriate authority for completion of the revenue estimates.

7.17 *Other matters* – We provided a management letter as a result of our review of the 2008-09 revenue estimates. This letter detailed a number of other issues and findings as follows:

- the internal process to review the economic assumptions should be formalized;
- key economic and other assumptions should be approved by Executive Council or Treasury and Policy Board; and
- inputs to the revenue models should be reviewed for accuracy.

7.18 We made recommendations related to each of these items and will assess progress in implementing our recommendations during our review of the 2009-10 revenue estimates.

7.19 *Prior year's recommendation* – During the review of the 2007-08 revenue estimates, we recommended the review opinion on the revenue estimates included in the budget documents be immediately followed by two schedules: a schedule of the revenue estimates the opinion is referring to, and a schedule of the key assumptions used in the development of the revenue estimates. We are pleased to acknowledge management has implemented this recommendation, improving clarity in the presentation and disclosure of the revenue estimates.

Results of the March 31, 2008 Audit of the Province's Consolidated Financial Statements

7.20 *Conclusions and summary of observations* – The Minister of Finance tabled the Province's audited consolidated financial statements on August 5, 2008, well in advance of the legislated deadline of September 30. The Auditor General's opinion on those statements was unqualified. Once again, we

commend the efforts of the Government Accounting division of the Department of Finance in preparing and releasing more timely financial results.

7.21 A management letter including detailed findings and other comments resulting from the audit was issued to the Minister of Finance in August 2008. While our findings were neither individually nor cumulatively significant enough to affect the opinion on the consolidated financial statements, each impacted on the integrity of financial results. We have made recommendations in the following paragraphs on several matters, including the need to document internal controls and the roles and responsibilities related to these controls. This documentation would help ensure the consistent processing of transactions and promote the integrity of recorded amounts.

Communication of results

7.22 *Preparation of consolidated financial statements* – The Department of Finance's Government Accounting Division is responsible for the preparation of the Province's consolidated financial statements. Our Office is the legislated auditor of these statements. A financial statement audit is planned and conducted to obtain reasonable, but not absolute, assurance whether the financial statements are free of material misstatement. An audit includes assessing the risk that financial statements may contain material misstatements; examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and their application; and assessing significant estimates made by management.

7.23 Based on our audit, we concluded the financial statements present fairly, in all material respects, the financial position of the Province as at March 31, 2008 and the results of its operations, changes in net direct debt and cash flows for the year then ended in accordance with GAAP for the public sector.

7.24 *Review of supporting information* – Professional standards require that an auditor review, prior to their release, any information or other documents to be released concurrently, or in combination, with financial statements upon which the auditor has or will be providing an opinion. We reviewed, but did not audit, the information in the Financial Statement Discussion and Analysis (FSD&A) section of Volume 1 of the March 31, 2008 Public Accounts. We did not find any inconsistencies between the information in the FSD&A and the information in the consolidated financial statements.

Systems and Controls

7.25 *Internal controls* – We have commented on the need for documenting internal controls and roles and responsibilities in each of 2003, 2004, 2005, 2006 and as recently as the February 2008 Report of the Auditor General. Government response to our comments or recommendations has generally indicated agreement. However, we are concerned with the slow progress towards achieving this goal.

7.26 Government has indicated it is in the process of documenting its system of internal controls. We are aware of a pilot project being conducted at Service Nova Scotia and Municipal Relations (SNSMR) to develop a framework on assessing and documenting internal controls. We understand the progress of the project will be dependent on available funding.

7.27 In addition to our continued finding regarding the lack of documentation of both internal controls and related roles and responsibilities, we were also concerned with the responses we received on this issue during our March 31, 2008 audit. As part of our audit procedures, we sent a questionnaire to departments and agencies requesting information on changes during the year. One question asked whether internal controls and other processes related to financial reporting had been documented. Several responses indicated the relevant department or agency adhered to all Provincial government policies and procedures for financial reporting without reference to internal control documentation. Other responses indicated adherence to the Management Manuals maintained by Treasury and Policy Board. We noted these policies do not provide for documentation of internal controls.

7.28 The Provincial Finance Act includes general references to the roles and responsibilities of the Minister and Deputy Minister for internal controls. Additional guidance needs to be developed, and effectively communicated on a more comprehensive basis. This would include the roles and responsibilities of departmental and crown entity governing bodies and senior management in the design, implementation, operation and maintenance of internal controls.

7.29 The significance of internal controls is without debate. In the audit profession, the importance of evaluating internal controls and assessing the extent to which they operate to reduce risks has resulted in a shift in the way audits are planned and conducted. In the corporate world, internal controls are recognized as a key component in the overall governance structure of an entity. In government, internal controls are also essential to ensuring the efficient and effective use of public funds. As well, internal controls need to be documented to ensure at least:

- consistent processing of transactions;
- the integrity of recorded amounts; and
- continuity of processing when management and staff change.

7.30 Through the Province's Controller's office, the government is responsible for maintaining a system of internal accounting and administrative controls in order to provide reasonable assurance transactions are appropriately authorized, assets are safeguarded, and financial records are properly maintained. We anticipate each of the following recommendations would be implemented through direction from the Controller's office.

Recommendation 7.4
Management should ensure internal controls within government are clearly documented and effectively communicated.

Recommendation 7.5
Management should ensure roles and responsibilities for the design, implementation, operation and maintenance of internal controls are formally assigned.

7.31 As part of the required reporting on our audit, we noted internal controls were reviewed only to the extent considered necessary under Canadian generally accepted auditing standards to establish a basis for determining the audit coverage necessary to express an opinion on the Province's consolidated financial statements, and to otherwise assist in planning and performing the audit. The audit work was not designed to determine whether internal controls were adequate for management's purposes and did not necessarily disclose all conditions requiring attention by management.

7.32 Further, as it related to the internal controls of the entities consolidated in the Province's financial statement reporting entity, reliance was placed on the audit work of public accounting firms appointed to report on the financial statements of those entities. Our comments on selected weaknesses in internal controls which were reported to those entities by their auditors are included in Chapter 8 of this Report.

7.33 *Management and oversight controls* – Budgetary control is achieved through the monthly forecasting and reporting process documented in the Management Manuals and as described to us by Treasury and Policy Board (TPB) management.

7.34 A key control in the monitoring of expenditures is the preparation by TPB of a summary report of budget to actual variances for Cabinet's review. This presentation was not prepared for each month we tested. We suggest that

in order for Cabinet to ensure it is providing an adequate oversight function, these presentations should be presented to and reviewed by Cabinet on a regular basis.

7.35 In addition, we noted the following in our testing of these entity-level controls.

- Management Manual 200 requires departments to provide detailed explanations for all variances. Variance thresholds should be established to guide departments and Treasury and Policy Board in assessing which variances require explanation.

- There were no documented policies and procedures for the forecasting processes used by the departments that we tested. Documented policies would help ensure consistency and provide a framework for accountability in forecasted results.

- Evidence of executive level review is a common control feature; however, departmental forecasts did not always include evidence of this review.

7.36 *Payments to vendors* – Our office conducted a control audit on payments to vendors which ran concurrently with the March 31, 2008 consolidated financial statement audit. The objective of the audit was to assess whether controls over payments to vendors were adequate to ensure transactions were complete, accurate, authorized and provide an adequate management trail. The conclusions and observations from that audit are included in Chapter 2 of this Report.

7.37 *Audit of governance and control framework* – An audit of the governance and control framework of the Investment Management, Liability Management and Treasury Services, and Capital Markets Administration divisions of the Department of Finance was conducted by an external audit firm and completed in 2004. The resulting report, issued in December 2004, identified several control weaknesses which resulted in a denial of opinion. The auditors categorized the significant deficiencies as follows:

- those related to the governance model including the need for an oversight body in both the Liability Management and Treasury Services and Investment Management divisions, and a more comprehensive risk management plan for the Liability Management and Treasury Services Division; and

- those related to internal controls including improved segregation of duties in each of the Liability Management and Treasury Services, Investment Management, and Capital Markets Administration divisions.

7.38 A significant portion of the activity of the Investment Management Division related to investments in the two public service pension plans

and we understand these activities are now part of the activities of the Nova Scotia Pension Agency. However, there is still substantial short-term investment activity conducted through the Department of Finance. The Liability Management and Treasury Services, and Capital Markets Administration divisions remain responsible for the Province's $11 billion in unmatured debt (including $6 billion in derivatives) and $2 billion in sinking fund assets.

7.39 Given the significance and complexity of the transactions processed by these divisions, we recommended an audit by an external, experienced private sector firm be conducted to determine whether the deficiencies have been remedied to the extent necessary for an unqualified audit opinion. This recommendation was made in our December 2005 and February 2008 Reports of the Auditor General. We have repeated this recommendation again in this Chapter as we are concerned with the significant deficiencies found in this area.

Recommendation 7.6
The Department of Finance should obtain an independent audit opinion on the governance and control framework of the Liability Management and Treasury Services, and Capital Markets Administration divisions. This should be conducted by a private sector firm.

7.40 *Internal Audit Centre* – The Internal Audit and Risk Management Centre was established in 2004, and has recently been renamed the Internal Audit Centre. We completed an audit of internal audit functions across government, including those in crown corporations and other governmental units. The results of that audit are included in Chapter 3 of this Report.

Other Reportable Matters

7.41 *Significant accounting policies* – Our management letter resulting from the March 31, 2008 audit identified certain areas in which improvements to the financial statements were needed to ensure full compliance with GAAP. A summary of matters still under consideration is noted below.

- There remains one entity, Canadian Blood Services, for which there is disagreement between the Department of Finance and the Office of the Auditor General as to whether it is a Government Partnership Arrangement. The results of operations of this entity were not consolidated, and we calculated a $15.4 million possible understatement of consolidated income as a result. We expect this matter will be resolved prior to next year's audit.

- PS 2500.07 of the Canadian Institute of Chartered Accountants' (CICA) Public Sector Accounting Handbook notes that as part of the

consolidation process, the accounting policies of government units must be adjusted to conform with the government's accounting policies. The most significant instance of possible adjustments due to inconsistent application of accounting policies relates to tangible capital assets (TCA). We have also expressed concerns in the past over a related issue involving the high level of TCA thresholds used by government for certain classes of TCA. We expect matters related to these issues will also be resolved for next year's audit.

7.42 *General ledger maintenance* – The general ledger had numerous financial asset and liability account balances which had not changed since the end of the prior fiscal year. Further examination of these balances revealed many had been inactive for several years with periods of dormancy dating as far back as the 1999 fiscal year. These inactive general ledger accounts may not represent true financial assets and liabilities as defined by the CICA's Public Sector Accounting Board (PSAB), and therefore maintaining them in the general ledger reduces the usefulness of the financial statements to users. Account balances in the general ledger should be analyzed to ensure they continue to meet PSAB definitions.

Recommendation 7.7
The Government Accounting Division should analyze inactive financial asset and liability accounts to ensure they should be maintained in the general ledger. Accounts which do not meet the definition of a financial asset or liability should be removed and the result recognized in operations.

7.43 In addition to our comments regarding certain financial assets and liabilities, we also noted the accounting for Sydney Steel Corporation (Sysco) transactions in the Province's general ledger accounts should be improved. The general ledger accounts did not reflect Sysco as a fully consolidated entity and, as a result, significant audit adjustments were required. There is potential for error in the process to adjust Sysco to a fully consolidated entity.

Recommendation 7.8
The Government Accounting Division should ensure the general ledger accounts related to Sydney Steel Corporation are revised to reflect the results of Sysco as a consolidated entity.

7.44 *Access controls* – In the February 2008 Report of the Auditor General, Chapter 6 - Government Financial Reporting, we reported our concern over the number of SAP users who were able to post transactions to the prior period. We are pleased to report our testing indicated this matter was remedied in the current year.

Audit Completion

7.45 *Timing of release* – Government Accounting again set an aggressive target for release of the March 31, 2008 consolidated financial statements by tabling them on August 5, 2008. Our audit opinion was dated June 30, 2008 except Note 13 (Subsequent Events) which is as of July 13, 2008. We again commend Government Accounting for undertaking this initiative and for their accomplishment. More timely financial statements increase their usefulness in decision-making and resource allocation.

7.46 *Difficulties encountered performing audit* – The year's audit deadline was met through cooperation from line departments and other entities included in the consolidated financial results of the Province. For the most part, the audit working papers and other documentation we requested from departments were received as requested and in a timely matter.

7.47 We did however, encounter considerable difficulties in completing the audit work for contingencies and contractual obligations. There were several instances where information received by Government Accounting from line departments was inaccurate or incomplete. We experienced the same problem in the prior year's audit and noted this in the March 31, 2007 management letter. In the response to the March 31, 2007 management letter, management advised this issue would be addressed with departmental staff. We are aware departmental accounting staff have been provided with information from Government Accounting to assist them in the identification and recognition of contingencies and contractual obligations. The number of adjustments resulting from this year's audit indicates a need for further instruction, and we suggest this be completed before the 2008-09 audit.

7.48 We also encountered instances where information we requested to facilitate the timely completion of our audit was not received when due. Given the aggressive target for the release of the Public Accounts, it is imperative we receive accurate information on time and as requested because our Office's resources are scheduled based on the due dates included in the list of audit requirements provided to departments.

7.49 *Management judgments and estimates* – Government's preparation of the Province's consolidated financial statements requires the use of significant accounting estimates, certain of which are particularly sensitive to future actual results differing from government's assumptions upon which the accounting estimates are based. At the conclusion of this year's audit there were no significant outstanding concerns with the estimated accounting balances used in preparing the March 31, 2008 consolidated financial statements.

7.50 *Misstatements in the financial statements* – During the audit of the March 31, 2008 consolidated financial statements a number of accounting, disclosure and audit issues arose and were communicated to government staff at various points in the audit process. Some of these issues were resolved either by review of additional information provided to us or by adjustments to the financial statements.

7.51 Generally accepted auditing standards require that all but trivial known errors or misstatements identified in the Province's consolidated financial statements during the year-end accounting or audit processes be corrected. Any unresolved, unadjusted errors or differences are considered when preparing the auditor's report on whether the statements *"present fairly"* in accordance with GAAP. All but trivial errors should be corrected to enhance the accuracy of the financial statements.

Recommendation 7.9
The Government Accounting Division should ensure all but trivial known and possible errors identified during the audit are corrected.

Changes in accounting and auditing standards

7.52 *Accounting standards* – Accounting standards and pronouncements that comprise GAAP continue to evolve. Changes in presentation and disclosure are intended to improve the usefulness of financial statements for decision-making purposes. Significant matters on which PSAB has recently released final or revised pronouncements or is developing new or revised pronouncements, or issuing statements of principle or statements of recommended practice, are described below:

7.53 *Accounting for tax revenue* – PSAB's Tax Revenue Project will address general recognition, measurement, reporting and disclosure principles of all types of tax revenues. It is expected that the new standard will be approved in 2009.

7.54 *Statements of principals and other guidance* – Statements of principles suggest key principles and definitions that PSAB expects to propose in future recommendations. Other guidance would include statements of recommended practice which provide guidance on selected topics. The following statements are currently under consideration by PSAB:

- Financial Instruments
- Environmental Liabilities
- Indicators of Government Financial Condition
- Assessment of Tangible Capital Assets

7.55 In addition, amendments to existing standards are proposed in the exposure draft on government transfers.

7.56 New formal recommendations or guidance in such areas could require changes to government's financial reporting in the future. The nature and impact of required or planned accounting changes should be disclosed as soon as practical, ideally no later than during the presentation of the budget for the fiscal year in which the changes will take effect.

7.57 We note there are several accounting topics which impact crown corporations and other entities whose results are consolidated with those of the Province. These include several new or revised pronouncements related to financial instruments, inventory, capital disclosures, and goodwill and intangible assets. The impact of these changes on the financial statements of crown corporations will have to be considered during the consolidation process. As well, PSAB is currently conducting a project with the objective to revise the Introduction to Public Sector Accounting Standards to clarify which generally accepted accounting principles government organizations should apply when preparing their own financial statements.

7.58 *International financial reporting standards* – The move to international financial reporting standards is fast approaching. Publicly accountable enterprises in Canada are to adopt International Financial Reporting Standards commencing with fiscal years beginning on or after January 1, 2011. Crown corporations and other entities whose results are consolidated with those of the Province will need to determine if they will be impacted by the transition to international financial reporting standards.

7.59 *Auditing standards* – Current Canadian generally accepted auditing standards are in the process of being replaced by Canadian Auditing Standards (CAS). CAS are to be based on International Auditing Standards and will be effective for financial statement audits for periods beginning on or after December 15, 2009, and therefore will impact our audit procedures related to the consolidated financial statements for the year ended March 31, 2011. We will ensure changes impacting the completion of the audit are communicated to Government Accounting on a timely basis.

Additional Appropriations

7.60 *Conclusions and summary of observations* – Additional appropriations totalling $301.5 million were approved for the fiscal year ended March 31, 2008. An additional $83.8 million was approved in August 2008. The total additional appropriations for the year are therefore $385.3 million (2007 - $222.4 million). Although the timing of the approval for these additional appropriations was in compliance with the Provincial Finance Act, the Act itself reduces accountability and control by allowing approval of additional

expenditures in exhausted appropriations for up to ninety days after the tabling of the Public Accounts.

7.61 We suggested Cabinet consider engaging the full House of Assembly in the process to approve additional appropriations. Given the increasing significance of additional appropriations in the spending capability of the Province, such a process would help ensure an efficient and effective allocation of resources.

Timing and Significance

7.62 *Required reporting* – We are required under Section 9 of the Auditor General Act to report on any appropriations that were exceeded during the year. We note Executive Council approved Order-in-Council (OIC) 2008-179 effective March 31, 2008 approving additional appropriations of $301.5 million for 2007-08. A further $83.8 million in additional appropriations was required and approved in August 2008 by OIC 2008-415. The most significant amount of the total additional appropriations related to assistance to universities which exceeded the approved budget by $165.8 million.

7.63 *Significance of additional appropriations* – Exhibit 7.2 below notes the revenue included in the budget in each of the past five years, the actual revenue for the year, and the additional appropriation(s) for each year, for the consolidated fund. There has been a steady increase in additional appropriations over the past five years from $99.0 million in 2003-04 to $385.3 million in 2007-08, resulting in an increase in additional appropriations of $286.3 million over this period.

Exhibit 7.2
Additional Appropriations (in millions of dollars)

	Revenue Estimates	Actual Revenue	Variance	Additional Appropriations
2007-08	7,030	7,541	511	385
2006-07	6,589	6,677	88	222
2005-06	6,098	6,318	220	111
2004-05	5,574	5,855	281	159
2003-04	5,302	5,356	54	99

7.64 We note, as we have several times in past years, that the current process to approve additional appropriations reduces accountability to and control by the House of Assembly. The debate and challenge integral to the budget process are absent from the approval for additional appropriations. We suggest Cabinet consider engaging the full House of Assembly in the process to approve additional appropriations during the year. We note

the following as an example of additional revenues received prior to year end which resulted in additional appropriations to cover increased expenditures.

7.65 Offshore forfeiture revenue totalled $107.1 million for the fiscal year ended March 31, 2008. The December 28, 2007 Forecast indicated Provincial revenues were expected to increase by $95 million; $93.9 million of this amount related to offshore forfeitures.

7.66 As noted in paragraph 7.12, we did not agree with the decision to exclude any estimate for revenue from offshore forfeitures during the review of the 2007-08 revenue estimates. Regardless of the treatment for budget purposes, we suggest the significance of this amount warrants full House debate regarding how best to allocate these funds.

7.67 *Timing of approvals* – According to Section 13 of the Provincial Finance Act, no further contractual obligations or commitments may be charged to an exhausted appropriation. However, Section 28 of the Act allows up to ninety days after the tabling of the Public Accounts for the approval of additional appropriations related to the appropriations in the Public Accounts. There is an inconsistency within the Act. Management has acknowledged this inconsistency. Last year we recommended that the Provincial Finance Act be amended and we repeat this recommendation below.

Recommendation 7.10
Department of Finance management in conjunction with Executive Council, should ensure the Provincial Finance Act is amended to eliminate the existing inconsistency with respect to additional appropriations.

Other Matters

7.68 *Conclusions and summary of observations* – No special warrants have been approved by Executive Council since our last Report in February 2008. In addition, with respect to cash and other losses, an insignificant amount has been reported to us for 2007-08.

7.69 *Special warrants* – Section 9A of the Auditor General Act requires we report whether any special warrants have been issued. A special warrant is issued under Section 29 of the Provincial Finance Act for expenses that have not been provided for by the Legislature and are immediately and urgently required for the public good. We note since our last Report in February 2008, no special warrants have been approved by Executive Council under Section 29 of the Act.

7.70 *Cash and other losses* – Section 9A (1) (e) of the Auditor General Act requires we report every case in which we have observed that *"... there has been a deficiency or loss through fraud, default, or mistake of any person"*.

7.71 There is no longer a requirement in the Management Manuals for departments and crown entities to report losses to this Office. However, as in prior years, some departments reported losses to our Office for 2007-08. Note the list below may not include all losses as it details only those provided to us.

Exhibit 7.3
Cash and Other Losses 2007-08

Department	Cash	Property
Justice	$1,906.48	$1,140.00
Service Nova Scotia and Municipal Relations	$10.80	-

Response: Department of Finance

The Department of Finance appreciates the opportunity to respond on this chapter of the Report of the Auditor General. The Financial Reporting Chapter provides summary comments on the Auditor General's review of the Government's 2008/09 revenue estimates, the Auditor General's audit of the Province's consolidated financial statements for the year ending March 31, 2008 and other financial reporting matters. The summary comments in this chapter, as well as our response, should be read in conjunction with the more detail management letters that the Auditor General provided for both the revenue review and the audit of the 2007/08 Public Accounts.

Generally speaking, the Department appreciates and supports the recommendations that the Auditor General provides. While we have taken many steps to ensure our Estimates are GAAP compliant, and in the same format as the Public Accounts, at this time we do not plan to take the final step to move to Consolidated Budgeting. While it would address the revenue inclusion issue for third parties, it would require fundamental changes with the provincial budgeting process. As well, the Province does not intend to change the revenue estimate process for offshore forfeitures. As this chapter shows, this revenue is very volatile and it would not be prudent to establish an ongoing expenditure supported by this source.

Finally the Department does recognize that there are inconsistencies within the Provincial Finance Act. Further amendments could however produce additional inconsistencies or other unintended consequence. A complete review of the Finance Act is a major undertaking and there are currently no plans to initiate such a project.

8 Review of Financial Statements and Management Letters

Summary

In the private sector, financial statements are used by investors and potential investors to evaluate performance. In the public sector, financial statements are used not only to evaluate performance, but also to determine government's ability to continue providing key services to the public.

Schedule 9 of the Province's consolidated financial statements details the various entities included in the government reporting entity (GRE). Several of these entities are audited by this Office. The majority are audited by private sector auditors.

Under Section 17 of the Auditor General Act, we conduct a review of the audit opinions and related management letters of those entities audited primarily by private sector auditors. We consider those results, as well as results from our own audits of entities within the GRE, when auditing the consolidated financial statements of the Province. The purpose of this Chapter is to highlight matters of interest as a result of this review.

Although the majority of audits conducted of entities within the GRE resulted in unqualified audit opinions, there were also a number of qualified opinions. We note the audit opinion of one of the Province's loan funds continued to be qualified due to insufficient support for management's estimate of provisions on asset impairment. In addition, the audit opinions for several of the school boards were qualified due to the inability of the auditors to verify the completeness of school-based funds. In our view, these qualified opinions do not diminish the usefulness of the related financial statements.

Auditors are required to provide management and oversight bodies with information regarding internal control weaknesses. This information is provided in management letters. Our review of these management letters found numerous internal control and information technology deficiencies in a number of entities. Many identified by auditors in prior years still existed in 2007-08, an indication of poor governance and inadequate response to known weaknesses. Management should address the deficiencies identified by their auditors to ensure the integrity of their financial systems and financial reporting processes. Deficiencies were also identified in two provincial loan boards regarding documentation to support financial statement balances.

8 Review of Financial Statements and Management Letters

Background

8.1 The financial statements of crown corporations and agencies, funds of the government of Nova Scotia, and trusts administered by the government of Nova Scotia, are in some cases audited by the Office of the Auditor General, and in other cases by private sector auditors licensed under the Public Accountants Act.

8.2 Section 17 of the Auditor General Act permits this Office to conduct additional reviews of those entities where financial statements are reported on by private sector auditors. This Chapter contains comments on our review of the results of financial statement audits by private sector auditors, as well as comments on audits performed by this Office.

8.3 As noted in Chapter 7 of this Report, the Auditor General is responsible for the annual audit of the consolidated financial statements of the Province of Nova Scotia. Comments and observations regarding our audit of the Province's March 31, 2008 statements are noted in that Chapter.

Chapter Objective

8.4 The objective of the review of financial statements and management letters is to identify matters of interest to the users of public sector financial statements.

Significant Observations

Financial Statement Audit Results

8.5 *Conclusions and summary of observations* – In our review of the results of financial statement audits, we noted several instances where qualified audit opinions were issued. The majority of these were anticipated due to the nature of the entity's operations. In our view, these qualified opinions do not diminish the usefulness of the related financial statements. However, a qualified opinion was also issued in one instance where there was insufficient support for the provision for impairment in one of the Province's loan funds. This was consistent with the prior year. This reduces the usefulness of these financial statements in assessing the recovery of financial assistance.

8.6 In addition to our review of audit opinions, we also review the management letters auditors provide to oversight bodies. We are concerned with the number of internal control deficiencies identified in these letters and with the number of deficiencies which have been reported in the prior year and remain uncorrected. Inadequate controls pose risks to the integrity of financial statements.

8.7 *Qualified audit opinions* – The result of an audit is an opinion on whether financial statements present fairly the financial position of the entity at its fiscal year end, and the results of its operations for the year then ended. Where there are qualifications of an audit opinion, or situations in which it is not possible to render an opinion, we believe it appropriate to report on such matters.

8.8 Qualified audit opinions can result from insufficient evidence to support financial statement balances or disclosures. The audit opinion of the Nova Scotia Farm Loan Board was qualified because of insufficient satisfactory evidence relating to management's estimate of provisions for loan impairment. The audit opinion of the Nova Scotia Power Finance Corporation was qualified because the Corporation was unable to provide historical cost and effective interest rate of investments. Both audit opinions are consistent with those issued at March 31, 2007.

8.9 Several entities included in the consolidated financial statements of the Province derive revenue from donations or other contributions, the completeness of which is difficult to verify during an audit. The audit opinions for these entities are therefore qualified. This is a standard qualification for entities with these types of revenues.

8.10 Qualified audit opinions were issued by the auditors of the following entities; all of the opinions are identical to the 2006-07 fiscal year.

- Cape Breton Victoria Regional School Board, South Shore Regional School Board, Strait Regional School Board, Conseil scolaire acadien provincial, and Tri-County Regional School Board - due to the inability to verify the completeness of school-based funds
- Public Trustee - due to insufficient evidence to indicate whether trust income and assets are complete
- Art Gallery of Nova Scotia and the Nova Scotia Talent Trust - due to insufficient evidence to indicate whether revenue is complete
- Nova Scotia Agricultural College Foundation - because pledges were not recognized as revenue

8.11 A qualified audit opinion was issued for the audit of E911 Cost Recovery Fund due to insufficient evidence to indicate whether expenses of the fund were complete. A qualified audit opinion was also issued for the audit of the Nova Scotia Health Research Foundation due to the inappropriate application of an accounting policy related to grants payable.

8.12 *Disclosed basis of accounting* – Auditors can no longer provide an unqualified opinion on general purpose financial statements prepared on a basis of accounting other than generally accepted accounting principles.

8.13 The financial statements of the Sherbrooke Restoration Commission were prepared using accounting principles for museum boards in Nova Scotia as prescribed by the Department of Tourism, Culture and Heritage.

8.14 *Financial controls and records* – During financial statement audits, situations were noted where accounting and control systems or procedures were deficient. These weaknesses in internal controls were reported by the auditors in management letters to the crown corporations or agencies.

8.15 We anticipate deficiencies in internal controls will continue to be the focus of management letters. Auditors have adopted new standards in recent years which require an understanding of internal controls of an entity, as well as the overall control environment.

8.16 We were concerned with the number of recommendations made in 2006-07 which continued in 2007-08. Entities' management should address the deficiencies identified by their auditors in order to ensure the integrity of their financial reporting processes.

8.17 Although they were not of a magnitude to require reservation of an audit opinion, the auditors of the following entities have recommended improvements regarding the deficiencies noted to ensure financial records provide complete and accurate information on a timely basis.

Regional School Boards and the Nova Scotia Community College

8.18 *Annapolis Valley Regional School Board* – The SAP payroll system record of Master File Changes was not reviewed by either senior management or payroll managers on a regular basis, and payroll processing errors during the year created a significant amount receivable from staff at year end.

8.19 *Conseil scolaire acadien provincial* – The auditors noted school-based funds had been recognized in the Conseil's financial statements for the first time and recommended two further improvements be made to the system to record these funds: all accounts should be included in the system, and only transactions related to school-based funds should be in this system. The

establishment of an internal audit function over these funds was further recommended. The Conseil should also adopt a formal procedure for evaluating internal controls, which should then be under the direction of the Audit Committee. This latter point was reported in 2006-07.

8.20 *South Shore Regional School Board and Tri-County Regional School Board* – There was no formal process for documenting, testing and evaluating internal controls at the Boards, although effort had been made to develop an internal audit function for school-based funds. This weakness was reported in 2006-07. There were concerns over segregation of duties in accounts payable and preparing journal entries.

8.21 *Halifax Regional School Board* – The following comments relating to school-based funds result from audit procedures conducted at six schools. The 68% refund of HST was not tracked for internal reporting purposes on a consistent basis. Not all supporting documentation was reviewed and cancelled when the reviewer signed a cheque. These findings were consistent with the prior year. Additionally in 2007-08, the auditors noted not all bank reconciliations for school-based funds were approved.

8.22 *Strait Regional School Board* – The auditors noted improvements in accounting for school-based funds through testing performed at two schools, and encouraged continued implementation of the new Board policy for these funds.

8.23 South Shore, Tri-County, Strait and Halifax Regional School Boards, and Conseil scolaire acadien provincial were audited by the same public sector firm. In addition to the specific findings noted for each board, the auditors noted the following for all boards.

- A formal process to identify and evaluate internal and external business risks should be put in place at each board.
- Management at each of the boards should review findings from the Section 5970 audit of the SAP Customer Competency Center. SAP is the accounting software used by all school boards and is maintained by the Province's Corporate Information and Systems Division. The Section 5970 audit reported exceptions and absent control objectives and procedures. Board management should assess potential risks to their individual financial reporting environments which may result from these findings.

8.24 *Cape Breton Victoria Regional School Board* – Bank reconciliations were not initialed and dated by the person responsible for their preparation. Accounts receivable and accounts payable balances remain unchanged from prior years and March 31, 2008 accounts receivable need to be collected in order

to improve cash flow. There is need for an independent review of payroll changes to ensure the approved changes have been accurately entered into the payroll system. There is also need for management to review the payroll register for accuracy of the payroll expense. Further, management should determine if there is any obligation to provide future health retirement benefits to confidential employees. Travel costs had been coded to the incorrect account in the general ledger and it was noted a policy should be established for out-of-province travel. Management should assess the impact of exceptions noted to control objectives in the service provider's audit report for physical access controls, logical access controls, application software development and implementation.

8.25 *Nova Scotia Community College* – The process to send backup tapes to offsite storage was inconsistent and increases the risk of data loss. Access to the data centre site was not restricted to individuals who require it as part of their job responsibilities.

District Health Authorities and the IWK Health Centre

8.26 *Annapolis Valley District Health Authority, South Shore District Health Authority, and South West Nova District Health Authority* – Bank reconciliations require review on a monthly basis. A formal process needs to be established to review access privileges at the application and network levels, and physical access to the system needs to be better controlled. The auditors noted recommendations made in last year's management letters had been addressed and significant improvements had been noted.

8.27 *Cape Breton District Health Authority* – Numerous findings reported in prior years' management letters continue to be noted: a capital asset subsidiary ledger is not maintained; two separate computer systems are used to support purchasing and accounts payable; back-up tapes were not stored off-site; the DHA's disaster recovery plan is outdated; journal entries were prepared and entered without appropriate supporting documentation; and bank reconciliations were not always prepared on a timely basis. Several findings continue with respect to payroll: lack of segregation of duties, and a large number of manual cheques were being processed by the payroll department each month. Approved vacation carry-over continues to exceed the Authority's practice. In addition, it was determined this year certain retiring allowance premiums were calculated in error, and although unremitted, required correction in the general ledger.

8.28 *Capital District Health Authority* – The process for managing system changes has not been consistently adopted throughout the entity. The implementation of periodic monitoring controls would help ensure that changes are logged and the process is being followed. Terminated employees still possessed active network accounts. Excessive personnel

have administration privileges. Password controls are not implemented or enabled within certain applications. Monitoring processes of access rights to key financial applications should be implemented. All of these findings were reported in the 2007 audit results letter.

8.29 *Colchester East Hants Health Authority* – The auditors noted the value of an implementation plan for the Authority's new financial reporting system, and suggested the new system should be included in the scope of the Province's service provider audit.

8.30 *Cumberland Health Authority* – Two findings related to payroll: non-accrual of physician payments (which was reported in 2006-07); and the need for a review process for new hires on the system. Reconciliations of supplier statements to accounts payable are not done on a regular basis; and outstanding cheques are not properly cleared.

8.31 *Guysborough Antigonish Strait Health Authority* – There were instances where assets had not been received, or projects started, but the asset had been capitalized and amortized. In addition, accounts payable had been set up for these items. There was no subsidiary ledger for capital assets and capital asset financing of current and planned projects would jeopardize the cash position of the Authority. Certain accounts receivable and accounts payable were not updated from 2007. These findings are consistent with the prior year. Findings related to IT include lack of regularly imposed password changes, and system access privileges given to individuals outside of payroll function. Instances occurred where individuals approved their own timesheets. Journal entries prepared by the Director of Finance were not independently reviewed. Cheque numbers recorded in the general ledger for one bank account did not agree with the cheque numbers clearing the bank.

8.32 *Pictou County Health Authority* – Password controls for access to the Meditech system and other applications could be strengthened. Administrative level access for a specific application needs to be reviewed for two business users to ensure there is appropriate segregation of duties. Most of these weaknesses also existed in 2006-07. The auditors noted corrective action had been taken on several additional findings reported as a result of the 2006-07 audit.

8.33 *South Shore District Health Authority and South West Nova District Health Authority* – Monthly bank reconciliations were not consistently reviewed on a timely basis. There was no formal process to address the review of access privileges at the application level.

8.34 *IWK Health Centre* – Certain users were allowed to emulate other users, that is, access the system with all the rights of the other users. The usage

tracking log should be regularly reviewed. The practice of copying user IDs should be discontinued. These comments were consistent with the prior year. In the current year, findings were reported related to access to the inventory system.

Entities Providing Financial Assistance

8.35 *Industrial Expansion Fund* – Loan commitment expiry dates should be included in the loan agreement for tracking purposes. Management should also determine the year end interest expense accrual.

8.36 *Nova Scotia Farm Loan Board* – The Board should ensure there is independent and objective support for the valuation of loans and real estate. The Board should also enter into a service-level agreement with the Department of Finance to ensure its computing needs continue to be met.

8.37 *Nova Scotia Fisheries and Aquaculture Loan Board* – The Board's books of accounts did not report all transactions and the balances of these accounts do not equal the amounts in the financial statements. The loans subledger and general ledger were not reconciled. There was inadequate documentation supporting the allowance amount for impaired loans. In addition, interest accrued prior to declaring a loan to be impaired was not included in the allowance for loan impairments. These comments are consistent with the prior year.

8.38 *Nova Scotia Film Development Corporation* – The auditors recommended executive expense reports be approved by the Board chair. Further, it was noted immaterial expenditures had been capitalized on the balance sheet.

8.39 *Nova Scotia Business Inc.* – Management should consider an actuarial valuation for the public service awards liability. It was noted certain employees had full access to the system, although this was not required as part of their duties. Several account balances were consolidated into one general ledger code; records of these account balances were maintained on excel spreadsheets rather than integrated with the general ledger.

Government Business Enterprises

8.40 *Halifax Dartmouth Bridge Commission* – A review process should be established for commissionaires' payroll. This weakness was reported in 2006 and has not been corrected. Trip information on bridge crossings between July and December 2007 was purged which caused audit testing difficulties. For this reason purging should not occur unless there are backups available. Finally, there have been recurring problems with the MACPASS auto-replenishing system.

8.41 *Highway 104 Western Alignment Corporation* – Revenue-by-day reports did not agree to the daily revenue-by-collector for attended lanes. The variances should be investigated and the Corporation should consider undertaking specific tests to better understand the reasons for the variances. Cash collected in the E-pass lane should be compared to system records and the record signed off by a supervisor. The Corporation had made changes to the system to process journal entries, as was recommended last year, but still must consider compensating controls in certain situations. An ongoing system access weakness was that several users had the same password. This was noted again with the continuing recommendation that the new system expected in the near future will resolve this problem.

8.42 *Nova Scotia Liquor Corporation* – Certain individuals were granted more extensive access in the new system than was required for their position. Management noted they would undertake a comprehensive review of user access to ensure appropriate segregation of duties. In addition, the Corporation should ensure it is included in the scope of the Province's report on controls at a service organization. There were recommendations with respect to both accounts payable and accounts receivable: supplier reconciliations should be continued, and accounts receivable should not be offset against existing accounts payable to the extent possible.

Pension Funds

8.43 *Nova Scotia Public Service Superannuation Fund (PSSF) and Sydney Steel Corporation Superannuation Plan* – Accounts payable included $7.8 million related to an error found in 2004 on the commuted value of pensions paid from the PSSF from 1994 to 1999. An amount totaling $735,982 was included as a liability on the March 31, 2008 financial statements of the Sydney Steel Corporation Superannuation Fund. These amounts should be paid to avoid further interest charges to each Fund. This recommendation was consistent with the prior year.

8.44 *Member's Retiring Allowances Act Accounts* – A pensioner's death was not detected and benefits continued to be paid to a surviving spouse. In addition, the Plan should be formally amended to reflect previously approved changes so a formal waiver can be obtained by the Canada Revenue Agency. These deficiencies were reported in 2006-07. Benefits were paid to a dependent during 2007-08 even though the required proof of enrollment in an educational facility expired part way through the year.

Regional Development Authorities

8.45 *Antigonish Regional Development Authority* – Various letters to staff indicating terms of employment salary and benefits should be signed by the employer and employee.

8.46 *Lunenburg Queens Regional Development Authority* – There was inadequate segregation of duties within the finance department. In addition, it was not certain whether interim financial statements were prepared using GAAP. Both of these findings were reported as at March 31, 2007 as well. In addition, the Authority relied on detective controls to ensure amounts were recorded correctly. In these instances, errors are not identified until reports are reviewed. Preventative controls can prevent errors in revenue recording.

8.47 *Strait-Highlands Regional Development Authority* – A number of control deficiencies were identified due to inadequate segregation of duties. Compensating oversight controls by the Board and senior staff helped reduce the inherent risk of these conflicting roles.

Other Entities

8.48 *Art Gallery of Nova Scotia* – A more timely review of inventory, accounts receivable, and outstanding cheques was required. Stale-dated cheques need to be adjusted on bank reconciliations.

8.49 *Canada-Nova Scotia Offshore Development Board* – The combination for the security deposits safe should be changed when the responsible staff change. The Board should also continue to assess the on-line payment system to ensure that all safeguards are being followed and that passwords to this system are routinely changed. The auditors recommended that the Board establish a funding plan for their unfunded pension and other retirement obligations. This was consistent with the prior year.

8.50 *Canadian Blood Services* – The monitoring process for system access should include all staff, including those in the production environment. Also, there was an incomplete audit trail for the process to ensure all system jobs have been run to normal completion.

8.51 *Canadian Sports Centre Atlantic* – Receivables from sports organizations were outstanding for two years. Bank reconciliations and journal entries were not independently reviewed after preparation. There were numerous issues related to expenditures: items expensed which met the criterion for capitalization; cheques returned to cheque preparer for mailing; expense reports which did not require approval; expenses which lacked sufficient supporting documentation. The fair value of "*in-kind*" contributions needs to be determined. There were numerous errors in transaction postings to the general ledger during the year.

8.52 *Harbourside Commercial Park Inc. and Nova Scotia Lands Inc.* – Both audits were conducted by the same public accounting firm and both had similar findings. The trial balances at year end were out by $491,000 and $980,000,

respectively, and no regular financial statements were prepared by either entity on a monthly or quarterly basis. The latter may have been due to the switch over to SAP and inadequate training provided to employees.

8.53 *Nova Scotia Crop and Livestock Insurance Commission* – A fixed assets subledger was needed, and fully-depreciated assets should be maintained in the system for tracking purposes. Acreage on weather derivatives - a new type of insurance - needed to be verified. Management should ensure discounts and premiums charged on insurance are in accordance with Regulations.

8.54 *Nova Scotia Gaming Foundation* – The Board of Directors of the Foundation did not function for six months of the year due to vacancies. Board appointments should be staggered to avoid this situation. The Memorandum of Agreement between the Department of Health Protection and Promotion and the Foundation should be updated to address situations where there is a need to reallocate funding. Funds should be invested in accordance with the investment policy established by the Nova Scotia Gaming Foundation's Board of Directors.

8.55 *Nova Scotia Government Fund* – Management should develop a process to ensure that interest and principle amounts are included in the financial statements on a timely basis. This was also reported in 2006-07.

8.56 *Nova Scotia Health Research Foundation* – An integrated electronic data processing system should be implemented to track and account for grants. The financial records should record investment income of the Foundation on a regular basis. These were consistent with the prior year. Other prior year recommendations were resolved.

8.57 *Nova Scotia Innovation Corporation (InNOVAcorp)* – Management should consider establishing a policy to define non-standard or large journal entries and have these reviewed and approved by a senior official.

8.58 *Nova Scotia Legal Aid Commission* – The accounts payable sub ledger was out of balance with the general ledger again this year.

8.59 *Nova Scotia Public Service Long Term Disability Trust Fund* – The Auditors recommended the creation of an audit committee, and suggested the use of additional committees, such as investment and benefits committees, to guide the board.

8.60 *Nova Scotia School Boards Association* – The audit committee should conduct periodic testing to monitor compliance with Board policies and procedures. A written policy should be established for investing surplus funds. Internal controls over cheque signing and access, and invoice approval processes,

should be strengthened. These comments were consistent with the prior year. The current accounting software was deficient in providing information that most accounting systems provide and management should examine alternatives.

8.61 *Provincial Drug Distribution Plan* – The annual actual to budget variance analysis was not formally documented. Capital assets and accumulated depreciation balances in the trial balance did not agree to the note disclosure. There was a risk that credit memos on outdated drugs would not be collectible.

8.62 *Resource Recovery Fund Board* – Several deficiencies were identified in access to applications and data, including some noted in the previous year related to continued access for terminated users. All application and database changes should be formally and independently tested, reviewed and approved prior to implementation. The auditors recommended the Board establish a clear cut-off date for the submission of applications program funding. This was also reported in 2006-07.

8.63 *Sydney Tar Ponds Agency* – Both the Province and the Agency can make journal entries into the Agency's general ledger. The Province has made entries into the assets and liabilities section of the general ledger that are not related to the current agreements managed by the Agency. The general ledger was therefore not consistent with the Agency's financial statement presentation. This finding was reported in 2006-07. (The Office of the Auditor General also recommended improvements to the Province's general ledger with respect to the former Sydney Steel Corporation, including the Sydney Tar Ponds Agency. See paragraph 7.43 in Chapter 7 of this Report for further details.) An audit committee did not exist in the Agency to support this aspect of governance as expected in the public sector.

8.64 *Waterfront Development Corporation* – All expenses claimed by employees require receipts for reimbursement, and employees' vacation liabilities should be recorded at year end. The controller should not prepare journal entries.

8.65 *Other matters* – In addition to the above control deficiencies, we also reviewed management letters for other matters of interest. We noted the following.

8.66 *Nova Scotia Harness Racing Incorporated (NSHRI)* – Consideration should be given to discontinuing the operations of NSHRI as the entity exists only to act as the conduit through which funds flow between the government and the harness racing industry. This issue existed in the prior year.

Timeliness of Financial Reporting

8.67 *Conclusions and summary of observations* – The usefulness of financial information is impacted by its timeliness. As noted in Chapter 7, the usefulness of the Province's Public Accounts was again enhanced this year due to their early release on August 5, 2008, well in advance of the late September release date in years prior to 2007. Management of all entities within the government reporting entity should ensure their financial statements are released as required by legislation. Timely financial results are important for decision-making purposes.

8.68 *Compliance with deadlines* – The Provincial Finance Act requires that financial statements for government business enterprises and governmental units be submitted to the Minister of Finance by June 30 following the fiscal year end (usually March 31).

8.69 There continue to be problems receiving submissions by the deadline. This year, 32 entities (2007 – 24) were not successful in providing audited financial statements and requested information by June 30. Of these entities, 12 were also late in providing the requested information on time in 2007. This delay resulted in using unaudited information for planning and monitoring purposes in the current year. See Appendix I at the end of this Chapter for a complete list of late entities for 2007-08.

8.70 The Province's March 31, 2008 consolidated financial statements were released on August 5, 2008, meeting the reporting requirement established in the Provincial Finance Act.

Appendix I - Late Entities

3052155 Nova Scotia Limited
Conseil scolaire acadien provincial
Conserve Nova Scotia
Nova Scotia Government Fund
Nova Scotia Pension Agency
Nova Scotia Power Finance Corporation
South Shore District Health Authority
Sydney Steel Corporation
Sydney Tar Ponds Agency
Trade Centre Limited
Industrial Expansion Fund
Nova Scotia Crop and Livestock Insurance Commission
Nova Scotia Fisheries and Aquaculture Loan Board
Public Debt Retirement Fund
Sysco Decommissioning Fund
Agritech Park Inc.
Bioscience Enterprise Centre Inc.
Law Reform Commission
Nova Scotia Harness Racing Incorporated
Sydney Environmental Resources Limited
Upper Clements Family Theme Park Limited
Nova Scotia Liquor Corporation
Atlantic Provinces Special Education Authority
Canada-Nova Scotia Offshore Petroleum Board
Canadian Blood Services
Canadian Sports Centre Atlantic
Council of Atlantic Premiers
Acadia University Foundation
Dalhousie University Foundation
St. Francis Xavier University Foundation
University College of Cape Breton Foundation
Nova Scotia Talent Trust

Appendix

An Act Respecting the Office of Auditor General

Short title

1 This Act may be cited as the Auditor General Act. *R.S., c. 28, s. 1.*

Interpretation

2 (1) In this Act,

(a) "agency of government" means any department, board, commission, foundation, agency, association or other body of persons, whether incorporated or unincorporated, all the members of which, or all the members of the board of management or board of directors of which,

(i) are appointed by an Act of the Legislature or by order of the Governor in Council, or

(ii) if not so appointed, in the discharge of their duties are public officers or servants of the Crown, or for the proper discharge of their duties are, directly or indirectly, responsible to the Crown;

(b) "Auditor General" means a person appointed pursuant to this Act and includes any person appointed in his place and stead;

(c) "Minister" means the Minister of Finance;

(d) "public property" means property immovable or movable, real or personal, belonging to Her Majesty in right of the Province and includes property belonging to an agency of Her Majesty in said right.

(2) Unless otherwise provided in this Act, the words and expressions used herein have the same meaning as in the Provincial Finance Act. *R.S., c. 28, s. 2.*

Auditor General and Deputy Auditor General

3 (1) Subject to the approval of the House of Assembly by majority vote, the Governor in Council shall appoint a person to be the Auditor General.

(1A) Subject to subsection (1B), the Auditor General holds office for a term of ten years and may not be re-appointed.

(1B) The Governor in Council shall remove the Auditor General on the passing by the House of Assembly of a resolution carried by a vote of two thirds of the members of the House of Assembly voting thereon requiring the Governor in Council to remove the Auditor General from office.

(2) The Auditor General shall be paid out of the Consolidated Fund of the Province such salary as the Governor in Council determines.

(3) Notwithstanding subsection (2) hereof, the salary of the Auditor General shall not be reduced by the Governor in Council except on the passing by the House of Assembly of a resolution carried by a vote of two thirds of the members of the House of Assembly voting thereon requiring the Governor in Council so to do.

(4) Upon written advice of the President of the Executive Council and the Leader of the Official Opposition, the Governor in Council may, at any time the Legislature is not in session, suspend the Auditor General for cause, but the suspension shall not continue in force beyond the end of the next ensuing session of the Legislature.

(5) The Governor in Council may appoint a person to be Deputy Auditor General who shall hold office during pleasure and shall be paid such salary as the Governor in Council determines and shall perform such duties as are assigned to him by the Auditor General and who shall during any vacancy in the office of the Auditor General or during the illness or absence of the Auditor General have and exercise all the powers of the Auditor General.

(6) Such officers and employees as are necessary to enable the Auditor General to perform his duties shall be appointed in accordance with the Civil Service Act.

(7) The Auditor General and the Deputy Auditor general shall be qualified auditors. *R.S., c.28, s.3; 2005, c.13, s.1.*

Experts

4 (1) The Auditor General may engage the services of such counsel, accountants and other experts to advise him in respect of matters as he deems necessary for the efficient carrying our of this duties and functions under this Act.

(2) The compensation paid to those persons mentioned in subsection (1) hereof shall be determined by the Auditor General within the total dollar limitations established for the Office of the Auditor General in The Appropriations Act for the year in which the compensation is paid and shall be paid out of the Consolidated Fund of the Province. *R.S., c.28, s.4.*

Oath

5 (1) The Auditor General and every officer, agent and other person employed in the execution of any duty under this Act or under any regulations made hereunder, before entering upon his duties, shall take and subscribe to the following oath:

> I, ...solemnly and sincerely swear that I will faithfully and honestly fulfull the duties that devolve upon me by reason of my employment in the Office of the Auditor General and that I will not, without due authority in that behalf, disclose or make known any matter that comes to my knowledge by reason of such employment. So help me God.

(2) This oath shall be taken before such person, and returned and recorded in such manner, as the Governor in Council perscribes. *R.S., c.28, s.5.*

Public Service Superannuation Act

6 The Auditor General and all officers and employees of the Auditor General are employees within the meaning of the Public Service Superannuation Act and are entitled to all benefits therein set forth. *R.S., c.28, s.6.*

Powers and duties

7 (1) The Auditor General shall supervise and be responsible for all matters relating to the conduct of his office and of persons employed by him and shall have all the powers and perform all the duties conferred and imposed upon him by this Act, any other Act and the Governor in Council.

(2) The Auditor General may delegate to any person employed by him any duty, act or function that by this Act he is required to do other than reporting to the House of Assembly or to the Governor in Council. *R.S., c.28, s.7.*

Examination of account

8 The Auditor General shall examine in such manner and to the extent he considers necessary such of the accounts of public money received or expended by or on behalf of the Province, and such of the accounts of money received or expended by the Province in trust for or on account of any government or person or for any special purposes or otherwise, including, unless the Governor in Council otherwise directs, any accounts of public or other money received or expended by any agency of government appointed to manage any department, service, property or business of the Province, and shall ascertain whether in his opinion

(a) accounts have been faithfully and properly kept;

(b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the capital and revenue receipts;

(c) money which is authorized to be expended by the Legislature has been expended without due regard to economy or efficiency;

(d) money has been expended for the purposes for which it was appropriated by the Legislature and the expenditures have been made as authorized; and

(e) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property. *R.S., c.28, s.8.*

Annual report

9 (1) The Auditor General shall report annually to the House of Assembly on the financial statements of the Government that are included in the public accounts required under Sections 9 and 10 of the Provincial Finance Act, respecting the fiscal year then ended.

(2) The report forms part of the public accounts and shall state

(a) whether the Auditor General has received all of the information and explanations required by the Auditor General; and

(b) whether in the opinion of the Auditor General, the financial statements present fairly the financial position, results of operations and changes in financial position of the Government in accordance with the stated accounting policies of the Government and as to whether they are on a basis consistent with that of the preceding year.

(3) Where the opinion of the Auditor General required by this Section is qualified, the Auditor General shall state the reasons for the qualified opinion. *1998, c.5, s.1.*

Other reports

9A (1) The Auditor General shall report annually to the House of Assembly and may make, in addition to any special report made pursuant to this Act, not more than two additional reports in any year to the House of Assembly on the work of the Auditor General's office and shall call attention to every case in which the Auditor General has observed that

(a) any officer or employee has willfully or negligently omitted to collect or receive any public money belonging to the Province;

(b) any public money was not duly accounted for and paid into the Consolidated Fund of the Province;

(c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by the Legislature;

(d) an expenditure was not authorized or was not properly vouched or certified;

(e) there has been a deficiency or loss through fraud, default or mistake of any person;

(f) a special warrant, made pursuant to the provisions of the Provincial Finance Act, authorized the payment of money; or

(g) money that is authorized to be expended by the Legislature has not been expended with due regard to economy and efficiency.

(2) The annual report of the Auditor General shall be laid before the House of Assembly on or before December 31st of the calendar year in which the fiscal year to which the report relates ends or, if the House is not sitting, it shall be filed with the Clerk of the House.

(3) Where the Auditor General proposes to make an additional report, the Auditor General shall send written notice to the Speaker of the House of Assembly thirty days in advance of its tabling or filing pursuant to subsection (2).

(4) Whenever a case of the type described in clause 1(a), (b) or (c) comes to the attention of the Auditor General, the Auditor General shall forthwith report the circumstances of the case to the Minister.

(5) The Auditor General shall, as soon as practical, advise the appropriate officers or employees of an agency of Government of any significant matter discovered in an audit.

(6) Notwithstanding subsection (1), the Auditor General is not required to report to the House of Assembly on any matter that the Auditor General considers immaterial or insignificant. *1998, c.5, s.1.*

Review and opinion of revenue estimates

9B (1) The Auditor General shall annually review the estimates of revenue used in the preparation of the annual budget address of the Minister of Finance to the House of Assembly and provide the House of Assembly with an opinion on the reasonableness of the revenue estimates.

(2) The opinion of the Auditor General shall be tabled with the budget address. *1998, c.5, s.1.*

Access to information

10 (1) Notwithstanding the provisions of any other Act, every officer, clerk or employee of an agency of government shall provide the Auditor General with such information and explanation as the Auditor General requires and the Auditor General shall have free access, at all times, to the files, records, books of account and other documents, in whatever form, relating to the accounts of any agency of government.

(2) The Auditor General, if he deems it expedient, may station one or more of his officers in any agency of government to enable him more effectively to carry out his duties under this Act, and the agency of government shall provide necessary office accommodation for such officer or officers. *R.S., c.28, s.10.*

Audit before payment

11 (1) The Auditor General, if directed by the Governor in Council, shall audit the accounts of any agency of government before payment.

(2) Where the Auditor General is directed to audit, before payment, certain accounts or classes of accounts, no payment of such accounts may be

made until the Auditor General has certified them to be correct or the Minister directs. *R.S., c.28, s.11.*

Examination of security

12 The Auditor General may examine in such manner and to the extent he considers necessary such of the securities representing any debt of the Province which have been redeemed and cancelled. *R.S., c.28, s.12.*

Security required

13 The Auditor General shall require every person employed by him who examines the accounts of an agency of government to comply with any security requirements applicable to officers and employees of that agency of government. *R.S., c.28, s.13.*

Powers, privileges, immunities

14 The Auditor General shall have, in the performance of his duties, the same powers, privileges and immunities as a Commissioner appointed under the Public Inquiries Act. *R.S., c.28, s.14.*

Special audit and report

15 Notwithstanding any provision of this Act, the Auditor General may and where directed by the Governor in Council or the Treasury and Policy Board shall, make an examination and audit of

(a) the accounts of an agency of government; or

(b) the accounts in respect of financial assistance from the government or an agency of the government of a person or institution in any way receiving financial assistance from the government or an agency of government,

where

(c) the Auditor General has been provided with the funding the Auditor General considers necessary to undertake the examination and audit; and

(d) in the opinion of the Auditor General, the examination and audit will not unduly interfere with the other duties of the Office of the Auditor General pursuant to this Act,

and the Auditor General shall perform the examination and audit and report thereon. *R.S., c.28, s.15; 2005, c.13, s.2.*

Payment for statutory audit

16 (1) Where under this Act or any other Act of the Legislature, the Auditor General is, or may be, required to examine and audit or inquire into the accounts of any agency of government, the Governor in Council may direct that the cost of the examination and audit or inquiry be paid by that person, institution or agency of government, and upon such direction such payment shall be made.

(2) The Auditor General may charge fees for the examination and audit or inquiry, or such other professional services rendered by the Office of the Auditor General, on the basis approved by the Treasury and Policy Board. *R.S., c.28, s.16; 2005, c.13, s.3.*

Examination by chartered accountant

17 (1) Where the Governor in Council pursuant to this Act or any other Act has directed that the accounts of public money received or expended by any agency of government shall be examined by a chartered accountant or accountants other than the Auditor General, the chartered accountant or accountants shall

(a) deliver to the Auditor General immediately after the completion of the audit a copy of the report of findings and recommendations to management and a copy of the audited financial statements relating to the agency of government; and

(b) make available to the Auditor General, upon request, and upon reasonable notice, all working papers, schedules and other documentation relating to the audit or audits of the agency accounts.

(2) Notwithstanding that a chartered accountant or accountants other than the Auditor General have been directed to examine the accounts of an agency of government, the Auditor General may conduct such additional examination and investigation of the records and operations of the agency of government as he deems necessary. *R.S., c.28, s.17; revision corrected 1999.*

Where other auditor designated

18 Nothing in this Act shall be construed to require the Auditor General to audit or report upon the accounts of any agency of government if the Governor in Council, in pursuance of statutory authority in that behalf, has designated another auditor to examine and report upon the accounts of the agency of the government. R.S., c.28, s.18.

Powers and authorities

19 The Auditor General shall have all the powers and authorities exercisable by a deputy head under the Civil Service Act. R.S., c.28, s.19.

Regulations

20 The Governor in Council may make such regulations as are deemed expedient for the better carrying out of this Act. *R.S., c.28, s.20.*

Annual estimate

21 The Auditor General shall prepare annually an estimate of the sums required to be provided by the Legislature for the carrying out of this Act during the fiscal year, which estimate shall be transmitted to the Treasury and Policy Board for its approval, and shall be laid before the Legislature with the other estimates for the year. *R.S., c.28, s.21; 2005, c.53, s.4.*

Expenses

22 The expenses to be incurred under this Act shall be paid out of the Consolidated Fund of the Province. *R.S., c.28, s.22.*

Regulations act

23 Regulations made by the Governor in Council pursuant to Section 20 shall be regulations within the meaning of the Regulations Act. *R.S., c.28, s.23.*

Office of the Auditor General